REED PAPER LTD. ANNUAL REPORT 1975

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DIRECTORS

Robert W. Billingsley,
President and
Chief Executive Officer.

Kenneth S. Howard, Q.C.,
Partner, Ogilvy, Cope,
Porteous, Montgomery, Renault,
Clarke & Kirkpatrick,
Barristers and Solicitors.

Alexander A. Jarratt,
Chairman and Chief Executive,
Reed International Limited.

Marcel Lacroix,
Chairman of the Board,
Lacroix Inc.

John A. Mullin, Q.C.,
Partner,
Fraser & Beatty,
Barristers and Solicitors.

John A. Ross,
Chairman and
Chief Financial Officer.

Renault St.-Laurent, Q.C.,
Partner,
St.-Laurent, Monast,
Walters & Valliers,
Barristers and Solicitors.

Ernest J. Spence,
Chairman of the Board,
Signet Food Systems, Inc.

OFFICERS

Chairman and
Chief Financial Officer,
John A. Ross.

Vice-Chairman of the Board,
Alexander A. Jarratt.

President and
Chief Executive Officer,
Robert W. Billingsley.

Vice-President,
Industrial Relations,
Dean O. Gray.

Vice-President,
Thomas S. Jones.

Vice-President,
Law and General Counsel,
James W. S. McOuat, Q.C.

Group Vice-President,
Technical,
Raoul C. Buser.

Group Vice-President,
Pulp and Paper,
Stewart G. Gordon.

Group Vice-President,
Forestry and Wood Products,
Kenneth D. Greaves.

Group Vice-President,
Linerboard and Pigments,
Roger J. Short.

Group Vice-President,
Decorative Products,
Thomas R. Swanston.

Group Vice-President, Packaging,
Eric R. Zukowski.

Secretary,
Sara S. Hultgreen.

Treasurer,
Nicholas Davy.

Controller,
Anthony L. Anderson.

Assistant Treasurer,
William D. King.

Assistant Secretary,
A. Carol Hutton.

Directors and Officers as of March 25, 1976.

REGISTRARS AND TRANSFER AGENTS

Canada Permanent Trust Company,
Le Trust Général du Canada.

AUDITORS

Peat, Marwick, Mitchell & Co.

ANNUAL GENERAL MEETING

The Annual and a Special General Meeting of Shareholders and a meeting of holders of Preferred Shares will be held in the Quebec Room of the Royal York Hotel, Toronto, Ontario, at 11:00 a.m. and 11:05 a.m. respectively on Tuesday, May 4, 1976.

MAJORITY SHAREHOLDER

Almost 99% of the common shares of Reed Paper Ltd. are held by Reed Paper Holdings Ltd., a subsidiary of Reed International Limited, of London, England. These shares constitute approximately 85.4% of the voting shares outstanding.

Si vous aimez recevoir un exemplaire de ce rapport en français, veuillez communiquer avec le Service de publicité et relations publiques, Les Papiers Reed Ltée, 145 King St. West, Toronto, Ontario M5H 1J8.

TO THE SHAREHOLDERS

The year 1975 was a difficult one for Reed Paper Ltd. In common with most of Canada's forest products industry, Reed was adversely affected by lengthy labor disruptions and by the severe and prolonged economic recession in North America. Strikes by the Canadian Paperworkers' Union and the Pulp, Paper and Woodworkers of Canada closed the British Columbia Joint Venture Companies for nearly all of the third and part of the fourth quarters of 1975. A strike by the CPU shut down Reed's Quebec City mill for almost all of the fourth quarter, as well as part of the first quarter of 1976.

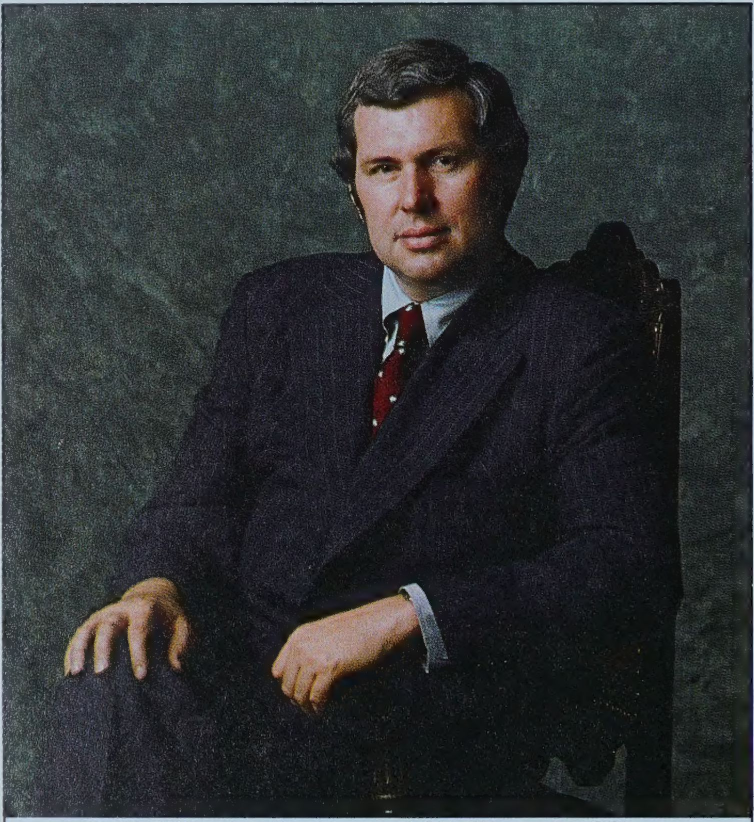
Largely because of these strikes, the reduced level of demand for many Reed products, and higher costs, earnings in 1975 were sharply reduced from 1974 levels. Earnings before extraordinary items totaled $12.3 million, compared with $34.3 million in 1974; net earnings totaled $11.1 million, versus $36.7 million. Sales in 1975 rose almost 22% to $369.1 million from $303.2 million, in large part because of revenue from operations which had been acquired in 1975.

Despite the strikes and economic downturn, however, Reed succeeded in making significant progress in its program to reorganize the structure of the Company and to rationalize and modernize its operations. Almost $100 million was raised through a rights offering to shareholders and through an issue of debentures by Reed Ltd. Reed Ltd. was created in July 1975 to serve as the Company's main operating subsidiary and its debt financing vehicle. The organization of the management of Reed's businesses into six operating Groups—Pulp and Paper, Forestry and Wood Products, Packaging, Linerboard and Pigments, Decorative Products and Technical—was completed in 1975. The operations of all six Groups are described later in this report, beginning on page 10.

A significant uncertainty was added in 1975 with the announcement of a Canadian wage and price controls policy by Prime Minister Trudeau on October 13. Reed has devoted considerable management time to the interpretation of subsequent guidelines and regulations and is complying with the controls program. However, Reed is unable at this time to predict the full impact of the program on the Company.

MARKETS

The North American recession of 1975 was generally deeper and more prolonged than initially anticipated, and affected most of Reed's product lines. The signs of market weakening that appeared in the final quarter of 1974 continued into 1975, with first-quarter 1975 sales showing a slight decrease from year-previous levels.


R.W. Billingsley, President and Chief Executive Officer.

The recession and the sharp decline in housing starts and consumer non-durable purchases particularly affected the business of the Decorative Products Group. This Group, whose sales of wallcoverings, fabrics, custom-made draperies, and furniture are related closely to consumer spending, experienced disappointing sales performance through most of 1975.

In the pulp, paper, and newsprint lines which account for the greater portion of Reed's revenues, demand was sharply reduced from 1974 levels, particularly in the key U.S. market. As worldwide inventories were worked down because of the Canadian forest industry strikes, and U.S. demand began to rise late in 1975, signs of an upturn became apparent. On January 23, 1976, Reed announced a Canadian and U.S. price increase of $25 a ton for newsprint, effective March 1, 1976.

Demand for packaging products showed little increase through the year. However, Reed Lumber Company Ltd. sales continued to improve throughout the year, resulting in earnings substantially higher than 1974 levels. Operations at Reed's Colenso sawmill were curtailed early in the year due to reduced demand. However, Reed expects that 1976 will be a reasonably profitable year for the Company for both manufacture of lumber and sale of building products.

LABOR

Relations with labor throughout much of the Canadian forest products industry were the worst in recent years. Wage demands by union officials were excessive, particularly in light of 1975's market downturn and the continuing deterioration in the competitiveness of the Canadian industry. The difficulties were exacerbated by continuing high inflation, which raised union expectations, and by a general mood of labor militancy. The situation was complicated later in 1975 and in early 1976 by uncertainties surrounding the Canadian wage and price controls program. Strikes in the forest products industry resulted in sharply lower production, and economic hardship for both companies and striking union members.

Two of the joint venture operations in British Columbia in which Reed holds substantial interests—Intercontinental Pulp, and Prince George Pulp and Paper—were closed by striking members of the Canadian Paperworkers' Union and the Pulp, Paper and Woodworkers of Canada on July 13, 1975. The mills did not begin to start up until October 12,

1975, after the Government of British Columbia legislated an end to the Province-wide strike. Agreements were signed with the two striking unions in early 1976. However, the settlement has been rolled back by 1.1 percentage point by the Federal Anti-Inflation Board.

The contract between members of the CPU and Reed at its Quebec City newsprint, pulp, and paperboard mill expired April 30, 1975, and union members were able to strike legally on August 22, 1975. The mill was struck on October 10, 1975, and remained closed until a new contract had been ratified on January 19, 1976. Terms of the contract, which is retroactive to May 1, 1975, call for increases of 14% in the first year, 10% in the second, and 8% in the third year. Terms of the new contract have not yet been approved by the Anti-Inflation Board. The mill start-up, which began January 22, 1976, proceeded normally.

Reed's labor contract with CPU members at its Dryden, Ontario kraft pulp and paper mill expired at the end of 1975. However, the Company is currently in negotiation with the union, and union members have agreed to continue working until a pattern settlement has been reached and the Anti-Inflation Board has ruled on it.

In August 1975, employees of the Carlaw Avenue corrugated plant in Toronto accepted a 17% wage increase. On October 9, employees of the Carlaw Avenue boardmill rejected a similar offer, but informed Reed on October 24 that the offer was acceptable. An interim adjustment of 8% was accepted, and the matter was taken to the Anti-Inflation Review Board on appeal. In November 1975 the labor agreement for the Winnipeg bag plant expired. Subsequent negotiations led to the ratification of the first three-year pact in the Canadian paper bag industry. This agreement is subject to approval by the Anti-Inflation Board. Contracts for all remaining bargaining units in the Packaging Group are expected to be renegotiated by mid-1976.

COMPANY DEVELOPMENTS

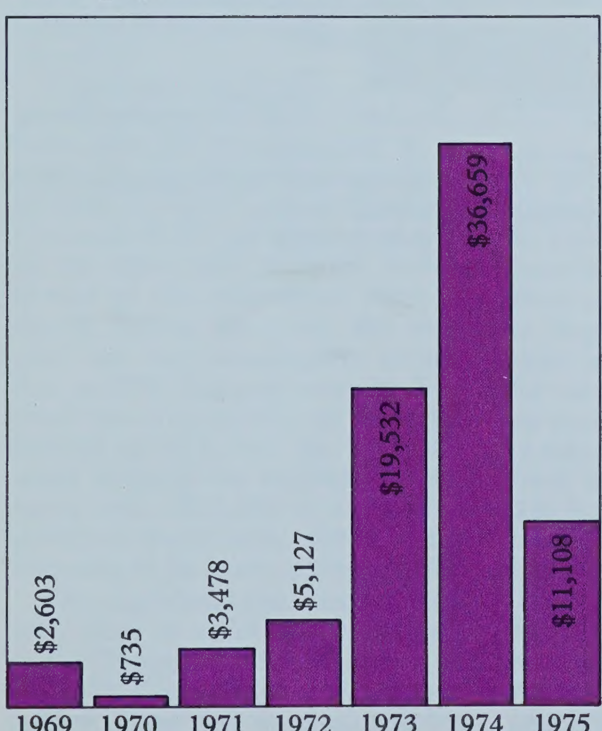
Early in 1975, Reed completed the purchase of all shares of Anglo-Canadian Pulp and Paper Mills, Limited, concluding the 1974 share-exchange offer by which Reed became a public company. This set the stage for a further reorganization, under which Reed has become essentially a two-tier corporation with Reed Paper Ltd. as the public holding company, and Reed Ltd. as its main operating subsidiary and debt financing vehicle. The creation of Reed Ltd. in its present form was accomplished on July 28, 1975. In November 1975, Reed Ltd. issued $50 million of 11 7/8% Debentures, Series A.

Of major significance to Reed in 1975 was the successful completion of a rights offering to holders of both the common and preferred shares. The offer expired September 12, 1975, and raised approximately $46.8 million in additional equity capital. This offering is described in detail in the "Financial Review" which begins on page 7.

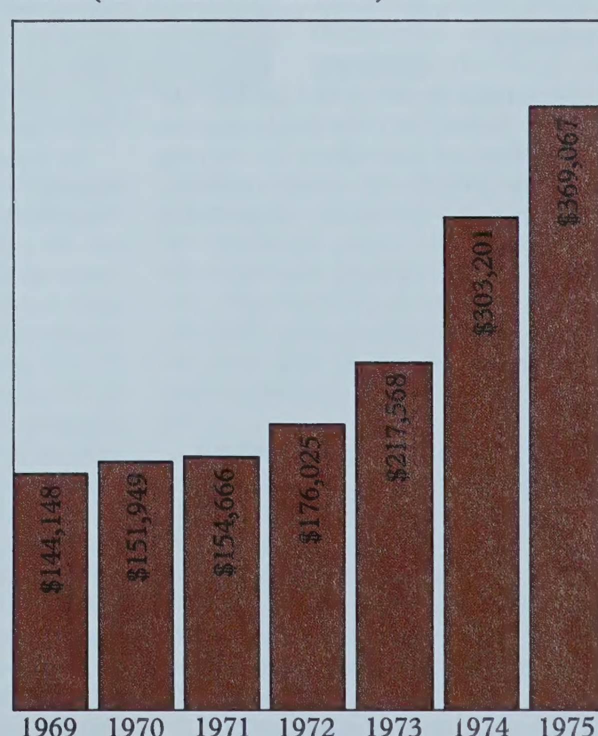
Further progress was made in 1975 on Reed's plans to reorganize and simplify its corporate structure. In July, the pulp and paper business and forestry operations previously carried on by Anglo-Canadian in the Province of Quebec were transferred to Papeterie Reed Ltée, a subsidiary of Reed Ltd. At the end of 1975 the rest of the Canadian operations were organized into four main operating companies, Reed Lumber Company Ltd., Reed Ltd. and its subsidiaries Reed Decorative Products Ltd. and Reed Packaging Ltd. At the same time, Reed's major subsidiaries in the United States were amalgamated under the name Reed Forest Products Inc., a subsidiary of Reed Ltd.

During 1975, Reed's Wallcovering Division continued to phase down the operations of the Sertex wallcoverings

Earnings (thousands of dollars)



Sales (thousands of dollars)



plant in Eatontown, New Jersey, which had been a marginal operation for a number of years, and eventually closed the plant in January 1976. Reed expects the cost of closure and disposal of equipment and stocks of material to be approximately $1.5 million.

In 1975, the Packaging Group completed the expansion of its Winnipeg bag-making plant and warehouse to 200,000 square feet from 100,000 sq. ft. The Group also leased a new 160,000-sq.-ft. manufacturing and distributing plant in the Montreal suburb of St. Laurent, Quebec. Early in 1976, the Group announced plans to lease a flexible packaging plant in a suburb of Minneapolis/St. Paul, Minnesota in April 1976.

Also in 1975, substantial progress was made in the construction of an 86,000-ton-per-year linerboard mill in Mississauga, Ontario, scheduled for start-up in May 1976.

The Company completed two substantial acquisitions in 1975, both of which were discussed in last year's Annual Report to Shareholders. Alpa Industries Limited has become Reed Lumber Company Ltd., a direct subsidiary of Reed Paper. The business and substantially all the assets of the Wallcovering Division of Dwoskin Inc. have been integrated successfully into the Wallcovering Division of Reed's Decorative Products Group.

In June and July 1975, separate fires occurred at four Company locations in Ontario and Quebec with damages totaling some $3 million. The losses were fully covered by insurance.

OUTLOOK

Economic recovery in Canada, the United States, and overseas markets is expected to take place at varying rates in 1976. In general, however, Reed expects a steadily improving demand for most of its product lines this year.

Demand for pulp, paper, and newsprint is likely to rebound from 1975's depressed levels, particularly in the U.S. market.

Reed expects the demand for packaging products to grow more slowly, but nevertheless to increase steadily through the year. Demand for wallcoverings increased during the first quarter of 1976, and sales are expected to be significantly higher for the year than in 1975. A much improved year also is expected for Reed's Fabric and Furniture Divisions.

Of major importance to Reed in 1976 will be the start-up of the new Mississauga linerboard mill. While it is not expected to contribute to operating profits during the first half of the year, due to normal start-up costs, the Company expects the mill will begin profitable operations during the second half of 1976.

Despite the economic and labor difficulties of last year, Reed's management considers that the Company is now well positioned to capitalize on its strengths and the market opportunities in 1976. The year ahead will be challenging, but a substantial improvement on the 1975 results is anticipated.

PERSONNEL

At the May 27, 1975 Annual General Meeting, shareholders voted to increase the size of Reed's Board of Directors to 10 members from nine. At the same meeting, Marcel Lacroix was elected a director of Reed Paper Ltd. Following the meeting, D. O. Gray, formerly General Manager, Industrial Relations, was elected Vice-President, Industrial Relations.

In August 1975, Earl F. Beyers resigned as Controller, and A. L. Anderson subsequently was appointed Corporate Controller of Reed Paper Ltd. and Reed Ltd.

Also in 1975, H. Wilfrid Broad, Deputy Chairman, Reed International Limited, resigned as a director of Reed Paper. During his many years on the Board, Mr. Broad kept in close touch with the objectives and problems of the Company. His wise counsel will be missed by his colleagues.

Effective yearend 1975, J. R. Craig retired as Chairman of the Board of Directors. Mr. Craig had served more than 20 years with Reed and its predecessor companies, including positions as President and Chief Executive Officer of Reed Paper Group Canada Ltd., President of Canadian Wallpaper Manufacturers, and President of Dominion Colour Corporation. Mr. Craig played an important role in Reed's development in North America. Upon Mr. Craig's retirement, the Board elected J. A. Ross as Chairman. Mr. Ross will also continue to hold the position of Chief Financial Officer.

Also in 1975, Dr. A. C. Hill and M. J. Foley retired from Reed after many years of devoted and invaluable service. J. A. Koven and D. Krever resigned as employees of Reed, but continue their valuable association as consultants to the Company.

Equally deserving of mention are the thousands of Reed employees in Canada and the U.S. who worked diligently for the Company through a year of economic difficulties. The Board of Directors wishes to recognize their contribution and extend its sincere appreciation.

R. W. Billingsley

R. W. Billingsley
President and Chief Executive Officer
Toronto, Ontario
March 25, 1976

Sales for Reed Paper Ltd. totaled $369,067,000 in 1975, compared with $303,201,000 in 1974. The 1975 figure includes sales of Reed Lumber (formerly Alpa Industries Limited) and the Wallcovering Division of Dwoskin Inc., which were acquired in 1975, amounting to $82 million from their dates of acquisition.

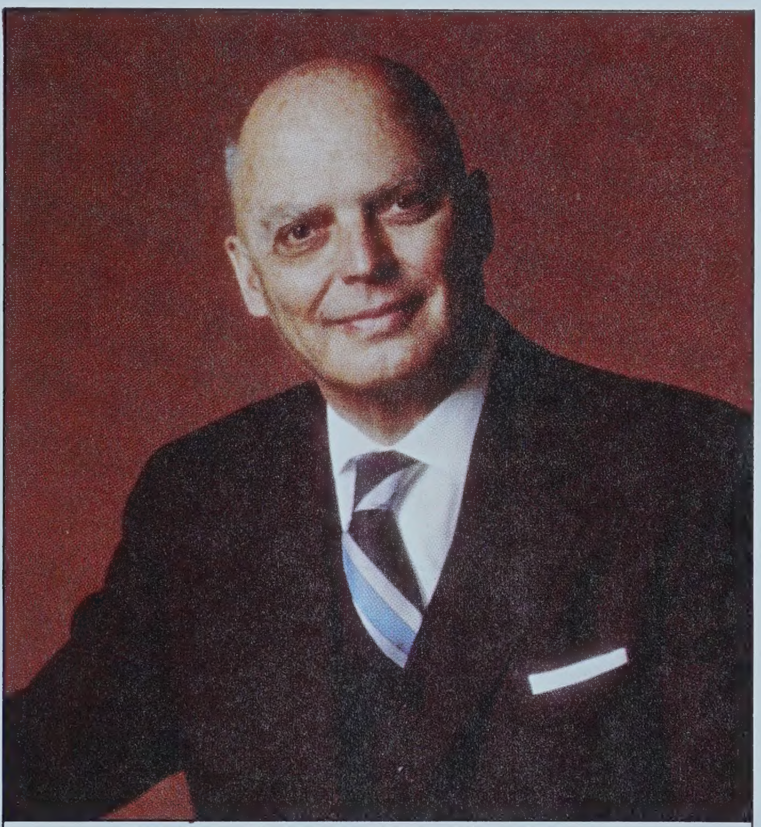
Earnings before extraordinary items in 1975 amounted to $12,309,000 or $1.29 per common share, compared with $34,257,000 or $4.91 in 1974. The 1974 results have been restated to reflect a change in the basis of valuing pulpwood inventories. The effect of the change was small, and is explained in Note 4 to the Consolidated Financial Statements, on page 37. Net earnings totaled $11,108,000 or $1.13 per common share in 1975, compared with $36,659,000 or $5.26 in 1974.

Reed has substantial investments in four forest products companies operating in British Columbia. Earnings of these Joint Venture Companies have been accounted for on the equity basis of accounting. A description of these companies' operations, and a summary of Reed's share of their profits and losses, is set out on Pages 26 and 27.

Dividends on Reed's common shares were raised from 25¢ per share to 37 1/2¢ per share effective with the payment of April 1, 1975. Quarterly dividends of 50¢ per share were paid on the convertible preferred shares. Owing to the substantial issue of shares during the year, the total paid out was considerably greater than in 1974. The total common dividend was $12,116,000, up from $7,096,000 in 1974, and the total preferred dividend was $2,544,000, compared with $530,000 in 1974. The preferred shares were issued at the beginning of the fourth quarter of 1974.

Two acquisitions were made in early 1975, both of which were discussed in the "Financial Review" section of the 1974 Annual Report to Shareholders. These were the amalgamation of Alpa Industries Limited with a subsidiary of the Company, and the purchase of substantially all the assets of the Wallcovering Division of Dwoskin Inc.

In order to finance the Company's acquisitions, its capital expenditures program and its working capital requirements, the Company completed two substantial financings in 1975. In August 1975, Reed made a rights offering to its shareholders. This provided for the preferred shareholders to purchase common or preferred shares, and the common shareholders to purchase common shares, on the basis of one additional share for every three shares held on the record date of August 11. The net subscription price under this offering was $18.75 for each preferred share and $17.50 for each common share. The proceeds of this rights offering were used to retire bank indebtedness of approximately $26.5 million incurred in the acquisition of The Gold Crest Products Limited (in 1974) and Dwoskin in 1975. The balance was advanced to Reed Ltd., the principal operating subsidiary of the Company, and used to reduce bank loans. Reed Paper Holdings Ltd., a subsidiary of Reed International Limited which then held all the common shares of the Company, fully exercised its rights under the offering, resulting in an increased investment of approximately $40.1 million in the Company. Approximately 98% of the subscription rights offered to the public holders of the preferred shares were exercised, providing an additional $6.7 million.



J.A. Ross, Chairman and Chief Financial Officer.

The rights offering resulted in a substantial increase in the Company's equity base. Through the exercise of rights by shareholders, 357,662 preferred shares and 2,293,431 common shares were issued. In addition, 31,367 preferred shares were issued in January 1975 to complete the share-exchange offer made in 1974 to the minority shareholders of Anglo-Canadian Pulp and Paper Mills, Limited. As well, 112,600 common shares were issued to various employees. Thus, at December 27, 1975, a total of 1,450,848 preferred shares and 9,280,224 common shares of the Company were issued and outstanding.

In November 1975, Reed Ltd. issued $50 million principal amount of 11 7/8% Debentures, Series A. The 20-year debentures were offered at 99.50, yielding net proceeds of approximately $48.5 million.

Capital expenditures for modernization, expansion, and environmental protection continue to be an important part of the Company's development program. In 1975, capital expenditures amounted to $44,262,000, compared with $23,475,000 in 1974. The 1974 total, in turn, was approximately double the amount in 1973.

The major portion of 1975 capital expenditures was spent on construction of the new linerboard mill in Mississauga, Ontario, and for the replacement of the mercury cells at Reed's Dryden chlor-alkali plant with a new process to produce chlorine and caustic soda without the use of mercury.

Further progress was made in 1975

on the restructuring of the Company's various subsidiaries into a simpler, more efficient corporate structure under the Reed name. Reed Ltd. was created as the Company's main operating subsidiary in July 1975. This resulted in the establishment of the Reed group as a two-tier corporation, with Reed Paper as the public holding company, and Reed Ltd. as its main operating subsidiary and debt financing vehicle. The creation of Reed Ltd. in its present form set the stage for the debenture issue in late 1975. Management believes the present structure of the Company will permit flexibility in future financings.

At yearend 1975, several Canadian subsidiaries were wound up into Reed Ltd. As conditions permit, it is expected that further Canadian subsidiaries will be wound up into or amalgamated with Reed Ltd., to complete the Company's program of corporate reorganization and simplification.

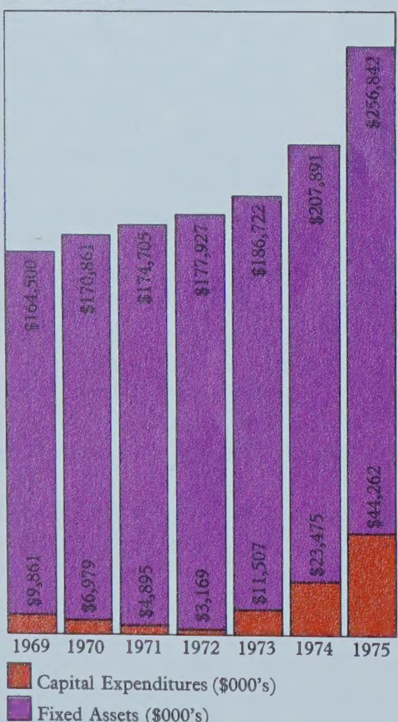
In the United States at the yearend, several subsidiaries were amalgamated to create Reed Forest Products Inc., now the major U.S. subsidiary of the Company.

J. A. Ross
Chairman
and Chief Financial Officer
Toronto, Ontario
March 25, 1976.

Financial Highlights

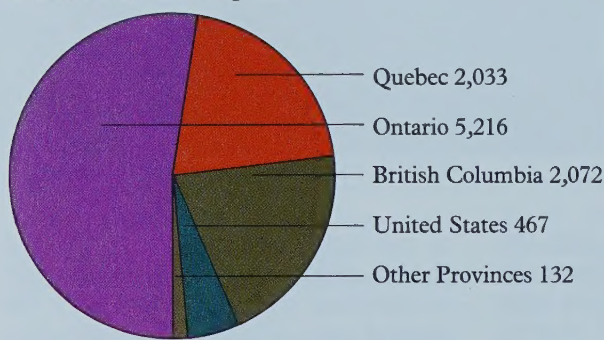
	1975	Restated 1974
Sales	**$369,067,000**	$303,201,000
Earnings before extraordinary items	**12,309,000**	34,257,000
Net earnings	**11,108,000**	36,659,000
Per Common Share		
Earnings before extraordinary items	**1.29**	4.91
Net earnings	**1.13**	5.26
Capital Expenditures	**44,262,000**	23,475,000
Working Capital	**102,953,000**	46,336,000

Capital Expenditures and Fixed Assets



Capital expenditures figure includes only actual fixed assets purchased during the year. Fixed assets total includes fixed assets purchased as well as fixed assets of subsidiary companies acquired where applicable.

Employees of Reed Paper Ltd. and Associated Companies.

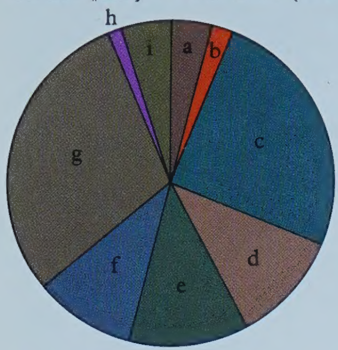


Total 9,920

This chart includes 1,800 people who work for the Joint Venture Companies in British Columbia.

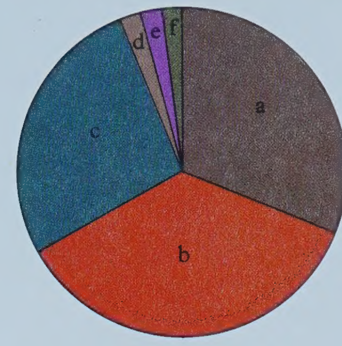
Sales by Market

Canada $229,729 total Sales (000's)



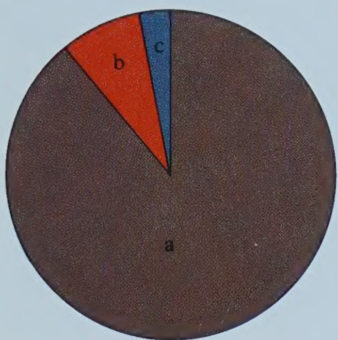
(a) Newsprint 4%
(b) Pulp 2%
(c) Decorative Products 25%
(d) Paper and Paperboard 11%
(e) Corrugated Containers 12%
(f) Bags and other Specialty Products 10%
(g) Lumber 30%
(h) Fibre for Recycling 1%
(i) Chemicals and Sundry 5%

U.S. $117,692 total Sales (000's)



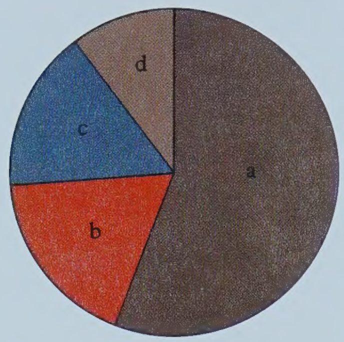
(a) Newsprint 31%
(b) Pulp 36%
(c) Decorative Products 27%
(d) Paper and Paperboard 2%
(e) Fibre for Recycling 2%
(f) Chemicals and Sundry 2%

U.K. $9,526 total Sales (000's)



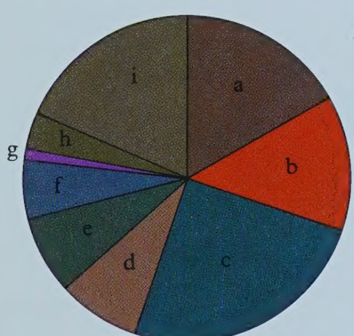
(a) Newsprint 89%
(b) Pulp 8%
(c) Chemicals and Sundry 3%

Other $12,120 total Sales (000's)



(a) Newsprint 56%
(b) Pulp 18%
(c) Decorative Products 16%
(d) Chemicals and Sundry 10%

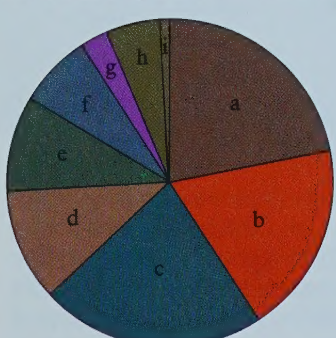
1975 Sales by Product (thousands of dollars)



Total $369,067

(a) Newsprint $61,396
(b) Pulp $49,343
(c) Decorative Products $90,077
(d) Paper and Paperboard $28,359
(e) Corrugated Containers $27,330
(f) Bags and other Specialty Products $24,224
(g) Fibre for Recycling $4,734
(h) Chemicals and Sundry $14,726
(i) Lumber $68,878

1974 Sales by Product (thousands of dollars)



Total $303,201

(a) Newsprint $66,631
(b) Pulp $56,826
(c) Decorative Products $66,627
(d) Paper and Paperboard $33,712
(e) Corrugated Containers $28,015
(f) Bags and Other Specialty Products $22,700
(g) Fibre for Recycling $8,918
(h) Chemicals and Sundry $16,814
(i) Lumber $2,958

Newsprint manufactured at Reed's mill in Quebec City, Quebec is sold to newspaper publishers around the world.

The Pulp and Paper Group is responsible for the manufacture and marketing of newsprint, market softwood kraft pulp, kraft converting and fine papers, paperboard, unbleached sulphite pulp, lignosulphonate and chlor-alkali chemicals, turpentine and tall oil products. The Group is organized into three operating Divisions—the Dryden Mill Division, the Quebec Mill Division, and the Chemical Division—and is under the direction of Group Vice-President Stewart G. Gordon.

Production facilities of the Group are located in Dryden, Ontario and Quebec City, Quebec. At Dryden the Group operates a kraft pulp mill, a kraft and specialty paper mill, and chlor-alkali, tall oil, and turpentine plants. In Quebec City, the Group

S.G. Gordon, Group Vice-President, Pulp and Paper.

operates a newsprint mill, a paperboard machine, a market sulphite pulp mill, and a lignosulphonate chemical plant. Pulp and paper sales offices are maintained in Montreal, Quebec; Toronto, Ontario; Winnipeg, Manitoba; and Park Ridge, Illinois.

Total sales for the Group in 1975 amounted to $143.4 million, compared with $162.2 million the previous year. Of this total, newsprint sales in 1975 accounted for approximately $61.4 million, compared with $66.6 million in 1974. Sales of kraft pulp totaled $44.9 million, up from $38.3 million in 1974. Kraft converting, fine and envelope papers and paperboard sales were $28.4 million compared with $33.7 million the year previous. Sales of sulphite pulp totaled $4.4 million in 1975, compared with $18.6 million in 1974.

Operations of the Group suffered in 1975 from sharply reduced demand for pulp and paper products, and from the impact of a lengthy strike at the Quebec City mill, which also affected production of lignosulphonate specialty chemicals.

Reduced demand for pulp and paper began to be felt in the final quarter of 1974, as world economies, and particularly that of the United States, entered a period of recession. This trend developed still further during 1975. As operating rates for many of Reed's customers declined to historically low levels, and inventories were built up, orders for pulp and paper were reduced.

As a result, sulphite pulp sales fell, as did sales of envelope paper. Fine paper sales were hurt not only by lower demand but also by the import of lower-priced U.S. papers into Canada, while newsprint sales were sluggish because of reduced consumption by U.S. newspaper publishers. Paperboard demand was poor throughout the year. Reed's bleached kraft pulp sales, however, held up well despite the poor overall market conditions.

Pulp and paper market conditions showed no sign of recovery until late in 1975, when U.S. demand increased significantly, in line with the strengthening of the U.S. economy. For Reed, however, this improvement in demand was offset by the duration of the strike at the Company's Quebec City mill, which began in early October 1975. Newsprint markets showed no sign of increased real demand until well after much of the Canadian pulp and paper industry had been struck by the Canadian Paperworkers' Union (CPU).

Newsprint, pulp and paper markets are now recovering from their 1975 lows, and the Company anticipates continuing improvement in all of these businesses throughout 1976 as the Canadian and U.S. economies continue their recovery.

The Company remains confident that there will be a healthy long-term demand for pulp and paper products in world markets, and particularly for bleached northern softwood kraft pulp. As a result, the Company is continuing its $120-million, multi-year program to modernize and optimize its operations at Dryden.

In addition, the Company is continuing its feasibility study of a new forest products complex in the Ear Falls/Red Lake area of Northwestern Ontario, which was announced in 1974. This involves a multi-faceted approach, which includes marketing, financing, pre-feasibility engineering, and environmental considerations. Such a project could cost an estimated $400 million, and would require Reed to seek a partner for this venture. Much of the feasibility study is being conducted within the Company. However, management has retained a number of Canadian and international consultants to assist in assessing the design concept and environmental impact of such a complex, which is envisioned to include a pulp mill and a sawmill. Reed expects that the environmental assessment and site recommendation study will be completed and made public in 1976. However, it does not expect to complete its overall feasibility study until late 1976 or early 1977, at which time the Board of Directors will examine the results before deciding whether or not to proceed. At this stage, Reed considers that such an integrated forest products complex would yield substantial economic benefits to the residents of Northwestern Ontario, to the Province of Ontario generally, and to Canada, and that these benefits could be attained with relatively

A substantial portion of the paper made at Reed's mill in Dryden, Ontario is sold for conversion into envelopes.

minor impacts on the natural environment.

DRYDEN MILL

The Dryden Mill Division has a rated annual capacity of 142,000 tons of kraft pulp and 71,500 tons of bleached and unbleached kraft specialty converting grades and fine papers.

Because of reduced demand in 1975, Reed elected to curtail production of papers at Dryden, rather than build inordinately high inventories during the first three quarters of the year. Two of the Dryden paper machines were shut down for a total of eight weeks in the first half of 1975. In addition, unplanned major maintenance caused an extension of the normal Labor Day shutdown of the Division's pulp production facilities, from September 1 to September 6. The closure caused the curtailment of paper machine production and market pulp drying capacity. These curtailments resulted in an operating rate of 69% for paper production at the Dryden mill for the first three quarters.

The Company's labor contract with CPU members at Dryden expired at the end of 1975. However, the Company currently is negotiating with the unions, and union members have agreed to continue working at the Dryden mill until a pattern settlement has been reached and has received approval from the Anti-Inflation Board.

In 1975, the Company announced details of and continued progress in its program of environmental improvement at the Dryden mill. About 25% of the total cost of the Dryden modernization program is to be spent on equipment and processes which have no direct impact on the mill's efficiency, but rather are directly related to pollution abatement, including in-plant and external treatment installations. Regarding the control of air emissions, the Company's projects include an electro-static precipitator for the chemical pulping liquor recovery furnace; equipment to scrub the gases from the lime kiln; a system to oxidize spent pulping liquor and thus reduce the typical kraft mill odor; and a facility to collect and burn other gaseous organic sulphur compounds. The odor abatement systems will be integrated with the design and construction of new evaporators, condensate strippers, digesters, blow tank, and causticizing systems.

To control effluent discharges to the adjacent river, the mill will install a number of in-plant control and conservation methods and sharply reduce the volume of water used. A new waste-water collection and new treatment system also will be installed.

The outlook for the Dryden Mill Division in 1976 is for a satisfactory year. The Company expects labor negotiations to be concluded without a work stoppage, and foresees strengthening demand for pulp and paper products produced in Dryden.

QUEBEC MILL

The Quebec Mill Division has a rated annual capacity of approximately 342,000 tons of newsprint, 65, 000 tons of market sulphite pulp, and 30,000 tons of paperboard.

In the face of poor market conditions, inflated costs and high interest rates, Reed elected to curtail newsprint operations to keep output in line with real demand. The decision to curtail newsprint production resulted in a 90% operating rate for the first three quarters of 1975. Because of the strike which closed the mill for much of the final quarter, the newsprint operations ran at only 70% of capacity for the full year.

Paperboard, although depressed by lower Canadian demand and higher U.S. imports, had a 69% operating rate for the first three quarters of 1975. Paperboard operations were down for one week in February, and on April 1, 1975 were reduced to a five-day work week. Because of the strike, however, the operating rate for paperboard for the whole year was 55%. Early in 1976, demand for paperboard began to increase, and in the week of February 16 the paperboard machine was returned to a seven-day production schedule.

Market sulphite pulp, which is sold largely on a spot or reservation contract basis, experienced the greatest drop in demand of any of the Quebec Mill Division's products. The operating rate for the full year in sulphite pulp was only 18% of capacity, because of downtime taken and the impact of the strike. Although the market for sulphite pulp is expected to be erratic in 1976, the Company is experiencing increased demand and expects substantially improved sales for the year, compared with 1975 levels.

Throughout 1975 the labor relations climate in the Canadian pulp and paper industry continued to deteriorate. Throughout the industry, contracts expired and negotiations broke down during the second quarter. On October 9, 1975, negotiations broke off between Reed and the CPU at the Quebec mill. The plant was struck on the evening of October 10, and remained closed until January 22, 1976. Operations resumed on that date, following ratification of a new three-year contract, retroactive to May 1, 1975. Terms of the new contract, which has yet to be approved by the Anti-Inflation Board, call for wage increases averaging 14% in the first year of the contract, 10% in the second, and 8% in the third.

In January 1976, Reed announced a Canadian and U.S. price increase of $25 per short ton for standard and offset newsprint, on a 30-lb. basis, effective March 1, 1976. The new prices are $271 per ton in Canada and $285 per ton in the United States. The price increases were necessary in light of increased costs, including higher wage costs. The increase is believed to be within the Canadian Government's wage and price policy guidelines.

Start-up of the Quebec mill following the strike proceeded normally, and management expects a year of increased demand for the mill's products in 1976.

CHEMICALS

Reed produces a number of widely used chemicals as byproducts of its pulping operations at the Dryden and Quebec City mills. Lignosulphonate specialty chemicals are produced in Quebec as byproducts of the sulphite pulping process, and are sold on the open market. At Dryden, Reed produces chlorine, caustic soda, sodium chlorate, and hydrochloric acid, the major portion of which is used in the Dryden mill's kraft pulping and bleaching process, while the remainder is sold to industrial consumers and distributors. It also recovers and markets crude tall oil, pulpmill liquid (crude sulphate turpentine), and purified turpentine.

Sales for 1975 of the Chemical Division to customers outside Reed totaled $4.3 million, compared with approximately $5 million in 1974. The decline was caused largely by interruptions in production. In Quebec, the lignosulphonate operation, which relies on the Quebec mill for all of its raw material, was shut down for most of the fourth quarter of 1975 because of the strike at the mill. The Dryden chlor-alkali plant also was shut down because of

a process conversion in the fourth quarter. As well, tall oil prices declined sharply during 1975, and processing problems plagued the Dryden turpentine purification plant throughout most of the year. In March 1976, the turpentine plant was shut down in order to define the modifications necessary to return the plant to efficient working order. However, revenues will not be seriously affected during the plant shutdown because a market exists for the crude sulphate turpentine that normally would be processed by the plant into purified turpentine.

On October 22, 1975, Reed permanently shut down its mercury-cell chlor-alkali plant at Dryden. The plant then was converted to a new process to produce chlorine and caustic soda without the use of mercury. Total cost of the conversion was approximately \$5 million, and includes the permionic membrane cells which replaced the mercury cells, a new building, and ancillary equipment. The plant is the first in North America to be totally converted to this advanced technology. On November 19, 1975, the new chlor-alkali plant resumed production, having successfully completed the change-over to the non-mercury process. The conversion to this new technology, which was done solely at the Company's initiative, was undertaken to provide the most environmentally sound system available for the production of chlorine and caustic soda, two essential industrial chemicals. Reed believes its initiative here is firm evidence of its policy of responsible behavior in the matter of environmental affairs.

Overall, management expects the Chemical Division will have considerably improved results in 1976. The lignosulphonate operations at Quebec were operating at capacity early in 1976, and the Company expects continuing strong demand throughout the year.

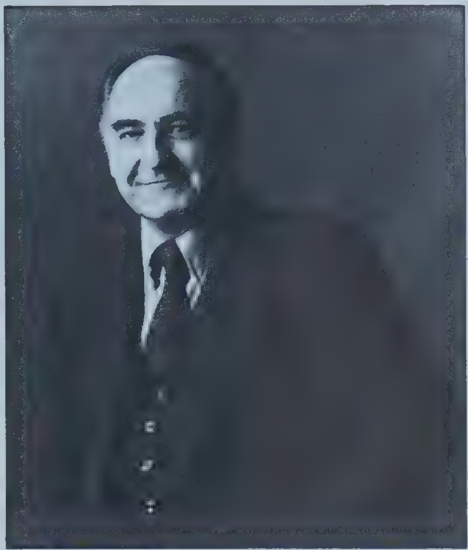
Price Ranges: U.S. list prices for Kraft pulp and newsprint, stated in U.S. dollars

	1975	1974	1973	1972	1971	1970	1969
	high/low	high/low	high/low	high/low	high/low	high/low	high/low
Bleached Kraft Pulp	371.95/371.95	340./265.	235./169.	169./169.	169./169.	169./168.	155./155.
30 lb. Newsprint	260./260.	234.65/213.50	213.50/176.00	176./176.	171./171.	162./162.	157./157.

Production Highlights

	1975	1974	% change
Newsprint (tons)	**243,789**	330,927	(26.3)
Sulphite pulp (tons)	**11,822**	62,446	(81.1)
Paperboard (tons)	**15,917**	31,349	(49.2)
Bleached and unbleached kraft pulp (tons)	**138,338**	129,121	7.1
Kraft and fine papers (tons)	**53,832**	69,344	(22.4)
Liner and corrugating medium (tons)	**24,355**	25,370	(4.0)
Flexible packaging (tons)	**28,025**	25,212	11.2
Corrugated (tons)	**65,006**	68,120	(4.6)
Chloralkalis, turpentine (tons)	**25,713**	30,423	(15.5)
Lignosulphonates (tons)	**32,460**	46,360	(30.0)
Pigments (tons)	**5,140**	7,576	(32.2)
Lumber—board feet (000's)	**27,366**	29,103	(6.0)
Wallcoverings—rolls (000's)	**21,101**	26,622	(20.7)
Paint—gallons (000's)	**1,936**	1,874	3.3

Mechanized harvesting equipment used by the Forestry and Wood Products Group improves productivity in the forest.



K.D. Greaves, Group Vice-President, Forestry and Wood Products.

The Forestry and Wood Products Group is responsible for all of Reed's forestry activities and procurement of virgin fibre, as well as the manufacture of lumber. This Group supplies fibre to Reed's mills in Dryden, Ontario and Quebec City, Quebec, and operates a softwood dimension sawmill with an annual capacity of 35 million board feet. The sawmill is located at Red Lake Road, 40 miles west of Dryden. Kenneth D. Greaves is Group Vice-President, Forestry and Wood Products.

Reed has under licence timber limits of some 3,300 square miles on the north shore of the St. Lawrence River at Forestville, east of Quebec City, and 6,900 square miles in the Dryden area of Ontario.

Production of both pulpwood and sawlogs at the Ontario and Quebec limits in 1975 was significantly lower than anticipated, reflecting the reduced operating levels in all Reed mills. The strike at the Quebec mill during the last quarter of 1975 resulted in a drastic curtailment of forest operations in that Province. The strike also brought about a temporary surplus of pulpwood inventory.

In 1975, the Government of Ontario announced a program to link stumpage rates with the level of activity in the forest products industry. It is too early to estimate fully the effect on Reed's fibre procurement costs.

During 1975, the Forestry and Wood Products Group procured 1,047,000 bone dry tons of virgin fibre, of which 763,000 tons were the product of the Company's limit operations in Ontario and Quebec. In the previous year, the figures were 1,125,000 tons and 850, 000 tons, respectively.

In June 1975, a forest fire swept through a 35-square-mile area of the Forestville, Quebec limit operations, destroying one logging camp and 23, 000 cords of prepared pulpwood. The damages of approximately $2.5 million were covered fully by insurance, and logging operations were not seriously interrupted.

During the first quarter of 1975, lumber production was reduced due to low market demand. The lumber market showed some evidence of strength in the second and third quarters, partly as a result of labor problems in British Columbia. This strength was not sustained, and it was not until late in the fourth quarter that there was any real evidence of the long-awaited return to normal demand levels. This was a direct result of increases in housing starts, both in Canada and the United States, which occurred late in the year. For 1975, the Colenso sawmill at Red Lake Road operated below capacity, in contrast to 1974 when it operated at full capacity. As 1976 began, the Colenso sawmill again was operating at capacity. The unusually firm demand for lumber during the winter added to the Company's confidence that 1976 will be a reasonably profitable year for lumber production.

In both Ontario and Quebec, there was an adequate supply of labor in 1975, and the Company experienced an increase in productivity for both men and machines. Record production levels were obtained on the Company's mechanized harvester operations. In 1976, the Company will continue efforts to increase productivity by introducing new logging equipment and techniques.

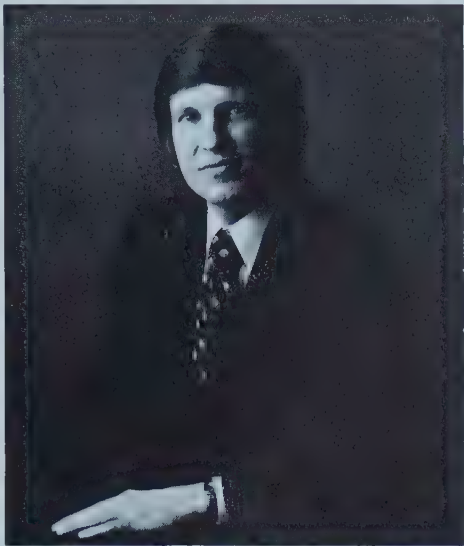
During the year, two-year agreements were reached with the union representing the majority of Reed's forest workers in Ontario and Quebec. The Ontario contract was signed in January 1975, retroactive to October 1974. The Quebec contract was signed in August, retroactive to May 1975. Both these agreements followed established industry patterns.

Negotiations to renew contracts expiring in 1975 covering clerical employees in both Ontario and Quebec, scalers in Quebec, and mechanical trades, equipment operators, and sawmill workers in Ontario, were delayed. This was caused by the inability of both management and labor to understand clearly the pattern of settlement which was developing in the industry during the latter part of 1975. It is expected that these negotiations will be concluded in the first half of 1976. Contracts covering forest workers in Ontario, employees in the Company's shipping operation in Quebec, and mechanical trades and equipment operators in Quebec will expire during 1976. In the present climate, the Company has every confidence that all negotiations in 1976 will be concluded without work stoppages.

Corrugated cartons for a variety of uses are produced by Reed's Packaging Group at plants in Toronto and Montreal.

Reed's Packaging Group manufactures and markets corrugated containers, folding boxes, paper bags, and Hydene® and low-density polyethylene bags. In addition, the Group distributes a large number of packaging-related items. Loose leaf and book covering materials and stationery items are also distributed under the name of Spicers Products. The Group is organized into three geographic centres: the Eastern Division, the Ontario Division, and the Western Division, and is under the direction of Group Vice-President Eric R. Zukowski.

The Packaging Group operates bag plants in Winnipeg, Manitoba and Mississauga, Ontario; a bag and folding box plant in Montreal, Quebec; and corrugated container plants in



E.R. Zukowski, Group Vice-President, Packaging.

Toronto, Ontario and Montreal. Distribution centres are located in Montreal, Quebec City, Hull, Mississauga and London, Ontario. The Group also has plans to open a new flexible packaging plant in a suburb of Minneapolis/St. Paul, Minnesota.

Sales for the Group in 1975 totaled approximately \$28 million in corrugated products and \$24 million in bag, folding box and distribution activities, compared with \$28 million and \$23 million, respectively, in 1974.

Notwithstanding some regional differences, there was a significant decrease in the demand for Reed's packaging products throughout the year. The decline can be attributed to high customer inventory levels built up during late 1974; the general slowdown of economic activity in Canada; and a reticence of buyers to replenish liquidated inventories to historic levels. In addition, the corrugated operations were still recovering from the illegal strike at the Company's Montreal container plant during late 1974.

The packaging market as a whole suffered a significant decrease in demand during 1975. For example, industry shipments of corrugated containers in Eastern Canada trailed comparable 1974 levels by approximately 8%. However, market acceptance of products made from Hydene® —Reed's brand of high-density polyethylene—accelerated during the latter half of 1975. And, building on an established position in the retail bag trade, the Group developed Hydene® products tailored for use in industrial and consumer goods packaging applications. By the end of the first quarter of 1976, an expansion will be completed that will double the capacity for manufacturing Hydene® film and bags.

Throughout the year, the Ontario Division installed detailed work and machine standards at one of the container plants. This program led to significant improvements in productivity and waste levels at that plant. Similar programs are now under way at the Group's remaining container plants.

Because of the nature of the packaging business, local service is important, as the markets in various geographic regions in Canada have different characteristics. For this reason, in April 1975 the Packaging Group was organized into three geographic profit centres, which replaced the former flexible packaging and corrugated divisional structure. The new Divisions are: the Eastern Division, which covers the Provinces of Quebec, New Brunswick, Nova Scotia, Newfoundland, and Prince Edward Island; the Ontario Division, which encompasses the Province of Ontario; and the Western Division, which covers the Provinces of Manitoba, Saskatchewan, Alberta and British Columbia. Each of these Divisions has full responsibility for all marketing and manufacturing activities within its region.

The Western Division also will have responsibility for Reed's new flexible packaging plant in Roseville, a suburb of Minneapolis/St. Paul, Minnesota. The 80,000-sq.-ft. plant will manufacture and distribute a full line of paper bags and wrapping products. The new operation, scheduled for start-up by April 1976, is the first U.S. plant for the Packaging Group and represents a base for further expansion.

In 1975, the flexible packaging operations in Montreal moved into a newly constructed 160,000-sq.-ft. plant in the suburb of St. Laurent, Quebec. The plant manufactures paper bags and folding boxes and acts as a distribution warehouse for various resale products. In October, a 100,000-sq.-ft. expansion of the Winnipeg bag-making plant was completed. These two projects marked the culmination of Reed's program to establish modern facilities at each of its flexible packaging manufacturing locations.

In November 1975, the labor agreement for the Winnipeg plant expired. Subsequent negotiations led to the ratification of the first three-year pact in the Canadian paper bag industry. This agreement is subject to approval by the Anti-Inflation Board. Contracts for all remaining bargaining units are expected to be renegotiated by mid-1976.

Although sales for both corrugated and flexible packaging products in the early months of 1976 were only slightly ahead of year-previous levels, the outlook for 1976 is encouraging. In Canada, demand is expected to accelerate throughout the year, which, coupled with a relatively stronger market in the United States, is expected to result in significant growth in sales and earnings for the Packaging Group.

Bags made of paper and Hydene® — Reed's brand of high-density polyethylene — are made at plants in Canada and the U.S.

LINERBOARD AND PIGMENTS GROUP

Pigments used by manufacturers of paints, inks and plastics are made by Reed at plants in New Toronto and Ajax, Ontario.

The Linerboard and Pigments Group is the newest of Reed's operating Groups. It was formed in April 1975, and is responsible for manufacturing and marketing linerboard and medium; supplying the linerboard and medium needs of Reed's Packaging Group; managing Reed's recycling operations; manufacturing and marketing pigments; and developing the Company's solid waste recovery business. It operates through four Divisions: Linerboard, Pigments, Recycling, and Resource Recovery, and is under the direction of Group Vice-President Roger J. Short. In addition, Mr. Short is responsible for co-ordinating all phases of Reed's feasibility study of a proposed new integrated forest products complex in the Ear Falls/Red Lake area of Northwestern Ontario.

R.J. Short, Group Vice-President, Linerboard and Pigments.

LINERBOARD

Reed owns a linerboard and medium mill in Toronto, with an annual capacity of 25,000 tons. It is now completing construction of a new mill in Mississauga, Ontario, just west of Toronto, that will have a rated capacity of 86,000 tons of linerboard a year. When completed, the new mill is expected to have cost approximately $32 million. It is due to start up in May 1976. Operations of the new mill will not contribute to the Company's earnings during the first half because of normal start-up costs, but the mill is expected to begin contributing to earnings later in 1976. Over the full year, however, there is expected to be little contribution to Company earnings from the Mississauga mill.

In 1975, the Group produced approximately 15,000 tons of linerboard and 10,000 tons of medium. This production was used almost entirely by the corrugated container plants of the Packaging Group.

Both linerboard and medium are used in producing corrugated packaging. The Linerboard and Pigments Group is responsible for supplying these materials to Reed's Packaging Group, either by manufacturing them or by buying them from outside suppliers. The Linerboard Division's Toronto mill and its new Mississauga mill use primarily recycled corrugated and some other secondary fibre as their raw materials to make linerboard and medium.

RECYCLING

The Recycling Division became a part of the Linerboard and Pigments Group in July 1975. It buys, sells, and processes secondary fibres for the Company's use and for sale to others. Storage and processing facilities are located in Montreal, Toronto, and Buffalo, New York. The Company is considering establishing a new recycling facility in Quebec City to replace the one destroyed by fire in 1975.

Prices and demand for recycled fibres, which began to soften midway through 1974, were extremely weak through most of 1975, and sales for the Division declined to $4.7 million from $8.9 million in 1974. However, prices became firmer late in 1975, and recovery is expected in 1976.

In the summer of 1975, the Division suffered two losses due to fire. The first occurred in Quebec City and resulted in complete destruction of the plant as well as approximately 600 tons of secondary fibre. The second occurred in a storage yard in Toronto, and destroyed approximately 6,200 tons of used corrugated containers as well as a small cinder block storage building. Damages eventually were recovered under the Company's insurance policies for both incidents.

PIGMENTS

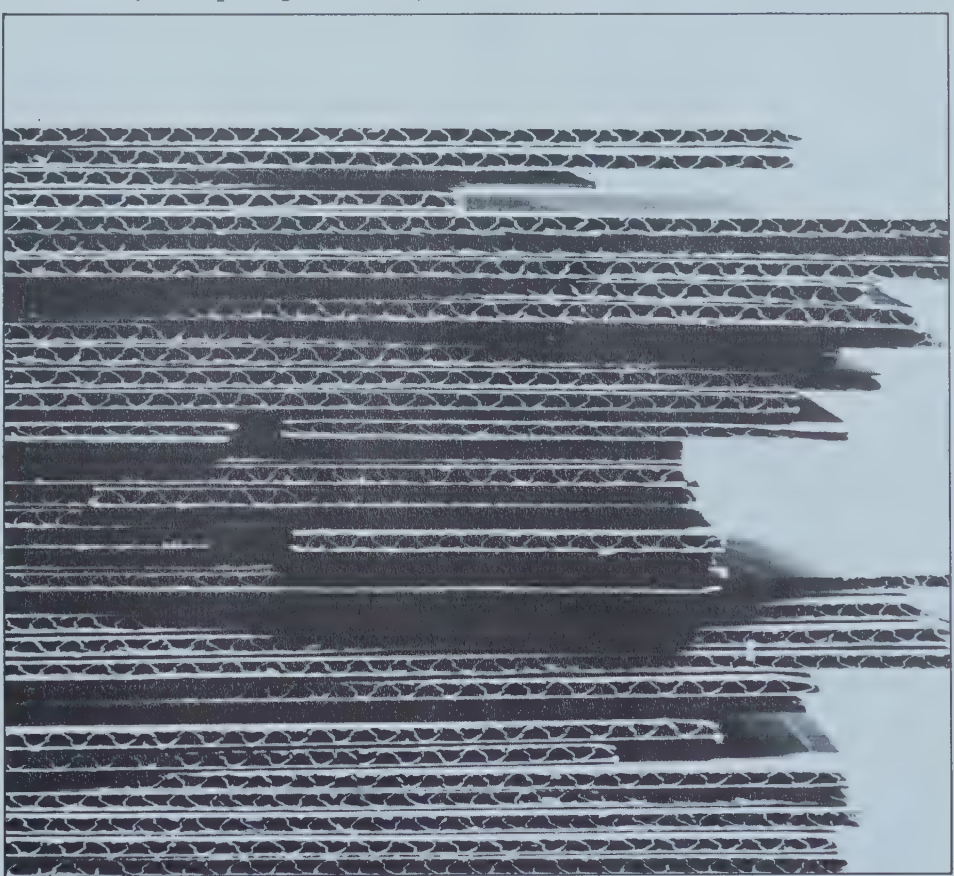
Reed manufactures pigments at two locations in Ontario: an 84,000-sq.-ft. plant in New Toronto, which manufactures mainly organic pigments, and an 80,000-sq.-ft. plant in Ajax which makes solely inorganic pigments. The output of both plants is sold primarily to paint and printing ink manufacturers.

A contract between the Company and employees of the Pigments Division expired in February 1976, and is now being renegotiated.

The Pigments Division (formerly Dominion Colour Corporation) generally has provided steady growth in sales over the past several years. In 1975, however, economic recession in North American and overseas markets reduced demand for pigments, and sales of Reed's products declined to $10.4 million from $12.5 million the previous year. To reduce inventories, operations of the pigments plants were closed for about six weeks in the second quarter. Market demand early in 1976 has strengthened management's expectations that results for the Division for the year will be substantially improved over 1975 levels.

RESOURCE RECOVERY

Reed believes there is significant growth potential in technology for handling solid wastes, and has created the Resource Recovery Division to develop and market such a business. This is a new business for Reed, and management is optimistic that it will prove to be rewarding.



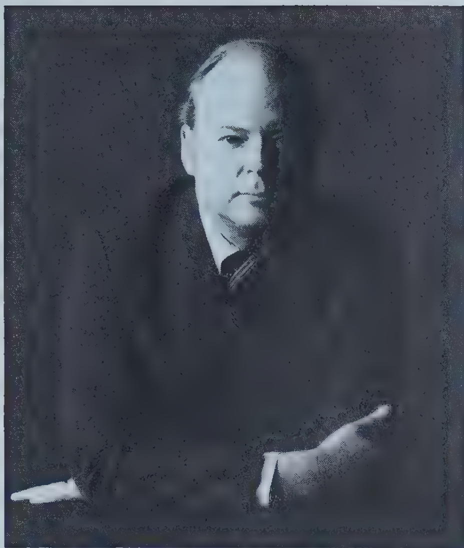
Linerboard and medium — the basic materials of corrugated boxes — are produced by the Linerboard Division in Toronto and Mississauga, Ontario (May 1976).

Wallcoverings, like the children's pattern shown here, are among the fine decorative products made and distributed by Reed.

The Decorative Products Group is responsible for the manufacture and distribution of wallcoverings and moderately priced furniture, the distribution of drapery and upholstery fabrics, and for the manufacture and sale of paint and custom-made draperies. Thomas R. Swanston is Group Vice-President, Decorative Products.

The Decorative Products Group represents Reed's largest business activity outside the forest products industry. Sales in 1975 totaled more than $90 million, compared with approximately $66 million in 1974.

The North American economic recession in 1975 sharply reduced housing starts and consumer non-durable spending, which in turn curtailed demand for decorative products generally. Despite this economic cli-



T.R. Swanston, Group Vice-President, Decorative Products.

mate, Reed implemented substantial changes in its Decorative Products Group, in order to be well established to take advantage of the anticipated improved economic conditions. Lower than expected sales growth, and the high costs associated with modernization and reorganization, combined to create a poor year for the Group in 1975.

However management is confident that the decorative products market in North America represents a considerable growth opportunity for the Company, and a balance for the cyclical nature of the forest products industry. Reed has had long experience in various segments of the decorative products field, and has made two acquisitions in recent years that complement and strengthen existing businesses.

Wallcoverings distribution was expanded substantially in 1975, through the acquisition of the wallcoverings business of Dwoskin Inc. in the United States. Surface printing operations are being transferred from Buffalo, New York to Toronto, Ontario, while at the same time all other wallcoverings manufacturing operations in Buffalo will be transferred from the two existing plants to a modern new facility in the Buffalo area. A marginal wallcoverings plant in Eatontown, New Jersey has been closed, and the operations of Reed National Drapery (formerly National Drapery), Canada's largest manufacturer of custom-made draperies, were expanded across Canada.

In 1975, the Group created three Divisions—Wallcovering, Fabrics, and Furniture—which are responsible for the management of the Group's key business areas. In addition, the Design Department was established at the Group level, to improve the styling and impact of the Group's products.

WALLCOVERINGS

Reed is both a major manufacturer and distributor of wallcoverings in Canada and the United States. The Company now manufactures wallcoverings at one large plant in Toronto and two plants in Buffalo.

Because of the economic recession, demand for wallcoverings in 1975 was reduced from 1974 levels, requiring the Wallcovering Division to close its Buffalo operations for two weeks in October. The Division also reduced staff in several locations.

An increased demand for wallcoverings began to be apparent in early 1976, however, and sales are expected to increase steadily throughout the year as consumer non-durable purchases recover. Major new lines of wallcoverings made by Reed will be introduced together with improved merchandising aids for retailers.

The Company sees significant potential in the wallcoverings business through increased growth in wallcoverings purchases, and by applying proven marketing and distribution techniques. Central to this development is the creation of improved marketing aids for wallcoverings retailers, an area in which Reed has pioneered. By the end of 1976 the Wallcovering Division expects to complete the installation of more than 100 of its proprietary WAL-SHOPPE systems in independent retail outlets. These systems improve store layout and provide a wide range of marketing tools for wallcoverings retailers. The systems are developed and serviced by Reed, and are purchased by the independent retailer. Also of importance in 1976 will be the introduction of a new line of historical wallcoverings

Furniture is made by Reed at a plant in Toronto, while Reed National Drapery is a leader in custom-made draperies.

in honor of the United States Bicentennial.

During 1975 the Company substantially expanded its wallcoverings distribution facilities. In April, Reed purchased the business and certain assets of the Wallcovering Division of Dwoskin Inc. of Atlanta, Georgia for approximately $9 million. The acquisition allowed Reed to secure effective nationwide distribution for wallcoverings, by increasing the number of Reed distribution centres in the U.S. to 23 from six. Headquarters for these U.S. operations are in Atlanta. In 1975, Reed substantially completed the integration of these operations with its existing U.S. distribution facilities, including the phasing-in of an Atlanta-based data processing centre.

The Canadian and U.S. distribution systems for wallcoverings will yield substantial benefits, permitting more efficient distribution of such popular Reed brands of wallcoverings as Sunworthy, Lloyd, and Crown. Reed also is committed to the distribution of the Birge brand of wallcoverings through independent distributors in Canada and the United States.

In November 1975, Reed concluded a major agreement with the Bolta Wallcoverings division of The General Tire and Rubber Company, which is providing a complete range of fabric-backed vinyl wallcoverings for distribution by Reed throughout the U.S. This agreement, which provides Reed an assured source for this increasingly popular type of wallcovering, permitted the Company to close its Sertex plant in Eatontown, New Jersey, which had made fabric-backed vinyl wallcoverings. The plant had been a marginal operation for a number of years, and its closure cost approximately $1.5 million on disposal of equipment and stocks of material.

In March 1976, Reed announced that it would transfer its surface-printing operations from Buffalo to Toronto as part of a longer-range plan to modernize and rationalize wallcoverings production. Surface-printed wallcoverings represent a slower growing segment of the wallcoverings business, and the consolidation in Toronto will allow for more efficient production. At the same time, Reed announced plans to transfer its other wallcoverings manufacturing operations from the two existing Buffalo plants to a modern leased facility in the Buffalo area. These plans were made on the basis of negotiations with the Erie County Industrial Development Agency, which indicated to Reed its willingness to assist in financing the new project. At the new Buffalo area plant, Reed will produce wallcoverings primarily under the Birge brand name, using rotogravure and flexographic printing. The new operations will provide a more efficient base for U.S. manufacturing, as they will provide expanded manufacturing facilities for such high growth sectors as gravure, flexographic, and paper vinyl wallcoverings.

As a part of its program to serve independent wallcoverings dealers in Canada and the United States, the Company plans to sell all of its retail-only Empire stores in Ontario and Quebec and close three Dwoskin retail outlets in the United States. Reed will retain those paint and wallcoverings stores located in Western Canada, which are mainly extensions of the Company's distribution centres. These stores operate under the names Empire Wallpaper and Paint, and General Paint. A plant in Vancouver manufactures and markets the General Paint brand of paints for consumer and industrial uses. Demand for the products sold in these stores increased steadily in 1975, and management expects sales in 1976 to continue to be strong.

FABRICS

The Fabrics Division, formed in November 1975, combines the operations of Reed National Drapery (changed from the name National Drapery in January 1976), and Sanderson. This Division is responsible for the manufacture and sale of custom-made draperies and for the distribution of drapery and upholstery fabrics under the Sanderson brand.

Sales of Reed National Drapery increased sharply in 1975, partly as a result of expansion into new markets. Profitability suffered in 1975 as a result of the costs of expansion into new markets, and the move to larger, modern facilities in Toronto. However, the Company is well established now to take advantage of the anticipated economic recovery in 1976. The development of new advertising, marketing and control programs also is expected to contribute to improved profitability in 1976.

FURNITURE

Reed has been involved in the manufacture of moderately priced occasional tables and upholstered furniture since the June 1974 acquisition of The Gold Crest Products Limited. From a plant located in Toronto, the Furniture Division markets to retailers throughout Canada.

Demand for furniture in Canada was sharply reduced in 1975 as a result of the economic recession. Table manufacturing operations were closed in May for three weeks, and then started up at a reduced level. However, demand increased steadily as the year progressed, and the table manufacturing operations returned to normal production levels in the third quarter. Reed expects that demand for furniture in 1976 will be substantially improved over 1975 levels.

On March 24, 1975 Reed Paper Ltd. acquired Alpa Industries Limited for $14,981,000 and amalgamated it with a subsidiary of the Company to form Reed Lumber Company Ltd., a direct subsidiary of Reed Paper. Sales of Reed Lumber for the nine months to yearend 1975 were $65.9 million, compared with $54.6 million for the comparable period a year earlier.

Reed Lumber is a trading and marketing organization which is engaged in manufacturing, processing and distributing lumber products and building materials.

Reed Lumber sells its production to homebuilders, residential and commercial developers, general contractors, industrial companies, and the agricultural market.

Reed Lumber has 11 distribution centres and 12 manufacturing/processing centres located in Ontario at Ottawa, the Metropolitan Toronto region, Barrie, Burlington, and Cambridge/Kitchener. Other operations are located at Edmonton, Alberta and in the Vancouver, British Columbia region. Wholesaling operations are located at Toronto, Winnipeg, and Vancouver.

The emergence of large-scale homebuilders, advanced building technologies, high on-site construction costs, and new industrial usages are placing greater demand on the supplier for prefabricating, processing, manufacturing and distributing facilities. Reed Lumber's processing and manufacturing facilities produce doors, windows, sash, trusses, wall panels, stairs, trim, prefabricated products and components. These facilities, in conjunction with the distribution centres, provide a complete product line for Reed Lumber's primary market—residential housing.

A wide range and substantial volume of lumber, plywoods, and other building materials are purchased from many manufacturers located in Ontario, Quebec, and British Columbia.

Reed Lumber is responsible for marketing all lumber produced by the Company. The Company's present and planned lumber production capacity, together with Reed Lumber's recently announced plywood manufacturing joint venture, substantially secure Reed Lumber's supply base on a long-term basis.

Reed Lumber holds 51% of the new joint venture plywood manufacturing facility, located at Delta, B. C. Alpine International Corporation of Portland, Oregon holds the remaining 49%. The joint venture company, Cantree Plywood Ltd., will reopen and enlarge a disused plywood plant, starting production of softwood plywood by July 1976 at the rate of 78 million square feet per year on a three-eighths-inch basis.

All of Reed Lumber's operations are conducted on a highly decentralized "business unit" or profit centre basis. This method of operation requires that divisional management be of high calibre and wide experience. Reed Lumber has approximately 725 employees.

Depressed sales, reflecting low levels of housing starts and extremely competitive selling market conditions during the first half of 1975, were more than offset by relatively high housing starts and prices during the second half of the year. Buying market prices trended upward throughout the year.

Sales levels for the first quarter of 1976 are encouraging and continue at relatively high, though probably non-maintainable, levels on a seasonally adjusted basis. The Company is cautiously optimistic about Reed Lumber's performance during 1976.

Housebuilders are major customers for the lumber, plywood and building products distributed by Reed Lumber Company.

With a staff of engineers and technologists, the Technical Group is responsible for engineering and development activities.

R.C. Buser, Group Vice-President, Technical.

The Technical Group is responsible for Reed's overall research and development and engineering activities. This group is organized into two main Divisions, the Dick Engineering Division and the Projects Division, as well as two Departments, the Research and Development Department and the Fibre Resources Department. Raoul C. Buser is Group Vice-President, Technical.

DICK ENGINEERING DIVISION

The Dick Engineering Division, formerly D. D. Dick Engineering Ltd., comprises approximately 80 professional engineers and technologists. This Division operates as a profit centre and undertakes business from outside Reed, as well as working on Reed projects. In 1975, Dick worked closely with other Reed Departments on various projects, but primarily on the construction of a \$32-million linerboard mill in Mississauga, Ontario, now nearing completion. As part of the Reed organization, Dick is able to draw on the extensive experience and resources of Reed's operating facilities and other Groups.

PROJECTS DIVISION

The Projects Division, formed in early 1976, is responsible for Reed's engineering activities. This Division, which formerly maintained offices in both Quebec City and Toronto, is now centralized in Toronto. However, a small management group will be based in Quebec City to handle Quebec mill projects.

The Division currently is working with the Dick Engineering Division on the Mississauga linerboard mill and the modernization and optimization program for Reed's Dryden mill. The thrust of this project is to increase the mill's efficiency and minimize the impact of its operations on the environment. This Division is also involved in initial planning of Reed's proposed new integrated forest products complex in the Ear Falls/Red lake area of Northwestern Ontario.

During 1975 the Division completed the conversion of Reed's chlor-alkali plant at Dryden to a new process to produce chlorine and caustic soda without the use of mercury. The work included permionic membrane cells which replaced the plant's mercury cells, a new building, and ancillary equipment. This plant is the first in North America to be totally converted to this advanced technology.

RESEARCH & DEVELOPMENT DEPARTMENT

The Research and Development Department's interests lie mostly in the area of pulp, paper and chemicals. Its aim is innovation and development of technology in these areas. In addition to work for Reed, it also handles projects for other forest-based industries, governments, and technical service companies. In 1975 the Department was involved with the modernization and optimization of Reed's Dryden mill and currently is working on a preliminary background analysis of the technology for Reed's proposed new integrated forest products complex, and the development of new technology for the recovery of fibre from solid waste. Reed plans to market this solid waste technology as a more viable system for dealing with the problem of solid waste.

FIBRE RESOURCES DEPARTMENT

The Fibre Resources Department concerns itself with fibre utilization and is indicative of Reed's interest in better utilization of forest resources.

The Department's main areas of involvement are in fibre use and optimization, sawmill evaluation and conceptual design, wood waste utilization, and general wood handling.

In May 1975, the Technical Group added Environmental Affairs to its group of staff functions. This Department is responsible for interfacing with provincial, state, and federal government regulatory control bodies in the area of environmental controls, and for establishing and monitoring environmental guidelines for Reed in accordance with guidelines laid down by regulatory agencies. This newly created Department is indicative of Reed's concern with the impact of its operations on the environment.

The Technical Group foresees considerably increased activity in 1976, because of its involvement in the Company's capital expenditures program. Major projects for the Group during 1976 will include completion of the Mississauga linerboard mill, continued engineering work on the Dryden mill modernization program, and feasibility studies on Reed's proposed new integrated forest products complex in Northwestern Ontario.

JOINT VENTURE INVESTMENTS

Reed has investments in four forest products companies in British Columbia. They are Prince George Pulp and Paper Limited, in which Reed owns 50% of the shares; Intercontinental Pulp Company Ltd., in which Reed's interest is 37.5%; and Takla Logging Company Limited and Takla Forest Products Limited. Previously, Reed's interest in Takla Forest Products was held directly, but in June 1975 Takla's sponsors transferred their shares to Takla Logging, which is owned equally by Prince George and Intercontinental. This transfer did not change the underlying interest of Takla's sponsors, however, and Reed's interest in Takla Forest Products remains at 43.75%.

The four Joint Venture Companies share common senior management, and Mark H. Gunther became President and Chief Executive Officer of the four companies on January 1, 1975.

The mills of Intercontinental and Prince George are located adjacent to each other at Prince George, British Columbia. Intercontinental owns and operates a kraft pulp mill with an annual capacity of approximately 240,000 tons. Prince George owns and operates a kraft mill, with an annual capacity of approximately 140,000 tons of kraft pulp and 110,000 tons of sack kraft paper.

Takla Forest Products owns and operates a sawmill at Isle Pierre, B.C. near Prince George, which produces dimension lumber and chips. The company's operations at Fort St. James produce dimension lumber, studs, chips and veneer.

The production of the Joint Venture Companies is marketed largely through the sponsoring companies. Intercontinental's production is subject to sales agreements with Reed International Limited and Feldmühle A.G., which continue until at least 1984. For the balance of the agreement, Reed International and Feldmühle are each committed to buy 50% of Intercontinental's total production, except for 10,000 tons in 1976 which is committed to Canadian Forest Products Ltd. Feldmühle and Canadian Forest Products are sponsors, along with the Company, in the Joint Venture Companies.

Despite serious problems, the Joint Venture Companies achieved total sales in 1975 of $131,630,000 compared with $127,366,000 in 1974. Of these sales, $108,567,000 were from pulp and paper, while $23,063,000 was received from lumber, chips and veneers. Comparable figures for 1974 were $105,685,000 and $21,681,000, respectively.

Sack kraft machine at Prince George Pulp and Paper Limited.

Net earnings after income taxes of the Joint Venture Companies decreased to $16,717,000 from $21,746,000 in 1974. Reed's share of the earnings was $7,348,000 in 1975, compared with $9,887,000 in 1974. This is accounted for on the equity method of accounting, whereby the share of earnings is included in Reed's statement of earnings.

In December 1975, the Joint Venture Companies declared their first dividends, amounting to $12,600,000, of which Reed's share was $5,975,000, payable in January 1976.

Reed's joint venture investments were affected by a number of problems in 1975, most notably a protracted strike by members of the Canadian Paperworkers' Union and the Pulp, Paper and Woodworkers of Canada, which began on July 12 and shut down the entire pulp and paper industry in the Province for three months. Production did not resume until October 10, when the Provincial Government ordered striking union members back to work. Agreement was reached by the unions and the industry early in 1976. However, the Canadian Anti-Inflation Board rolled back the province-wide settlement by 1.1 percentage point.

Recurrent labor problems in the transportation industry also disrupted operations of the Joint Venture Companies during 1975 and early 1976. Bleached kraft pulp production was disrupted early in 1975 because of a strike at the British Columbia Railway, which prevented shipments of bleaching chemicals. A strike by longshoremen in 1975 also limited transportation of products to offshore markets during the year. Early in 1976, the B.C. Railway was again struck by one of its unions.

New provincial legislation early in 1975 increased and pegged the price of wood chips purchased from interior B.C. sawmills. Regulations concerning woodchips were amended by the new Provincial Government effective March 1, 1976, resulting in a lower minimum price for interior B.C. mills.

Despite the severe constraints, the underlying performance of the Joint Venture Companies in 1975 was highly satisfactory. Management made significant progress in solving operating problems, and daily production records were set by both Prince George and Intercontinental numerous times during the year. Takla's results were near a breakeven position following a substantial loss in 1974.

The Joint Venture Companies submitted briefs in 1975 to the Provincial Royal Commission on Forest Re-

sources. The Commissioner's report is expected by mid-1976.

The impact of the Federal anti-inflation program on the Joint Venture Companies cannot be estimated accurately at this time. However, management of the Joint Venture Companies expects 1976 results to be substantially improved over 1975, as a result of increased demand for pulp, paper and lumber products in 1976.

SUMMARIZED STATEMENTS OF EARNINGS
(thousands of dollars)

	Prince George Pulp and Paper Limited		Intercontinental Pulp Company Ltd.		Takla Forest Products Limited	
	Financial Year Ending in December		Financial Year Ending in December		Financial Year Ended December 31	
	1975	1974	**1975**	1974	**1975**	1974
Sales	**$55,593**	56,037	**52,974**	49,648	**23,063**	21,681
Earnings (loss) before income taxes and extraordinary items	**$16,433**	21,069	**14,763**	16,075	**(428)**	(5,231)
Income taxes	**7,588**	7,968	**6,463**	7,856	**—**	—
Earnings (loss) before undernoted items	**8,845**	13,101	**8,300**	8,219	**(428)**	(5,231)
Extraordinary items	**—**	3,372	**—**	2,285	**—**	—
	8,845	16,473	**8,300**	10,504	**(428)**	(5,231)
Share of loss of Takla	**(214)**	—	**(214)**	—	**428**	—
Net earnings (loss)	**$ 8,631**	16,473	**8,086**	10,504	**—**	(5,231)
Company's proportionate share	**$ 4,316**	8,237	**3,032**	3,939	**—**	(2,289)

SUMMARIZED STATEMENTS OF FINANCIAL POSITION
(thousands of dollars)

	Prince George Pulp and Paper Limited		Intercontinental Pulp Company Ltd.	
	December 31, **1975**	December 26, 1974	December 31, **1975**	December 26, 1974
Current assets	**$31,075**	21,345	**24,407**	17,965
Current liabilities	**25,045**	15,219	**14,939**	10,931
Working capital	**6,030**	6,126	**9,468**	7,034
Investment in Takla at equity value	**4,987**	—	**4,987**	—
Due from Takla	**—**	8,268	**—**	6,011
Fixed assets, net	**56,020**	56,060	**53,195**	52,148
Other assets	**956**	1,083	**1,528**	1,669
	67,993	71,537	**69,178**	66,862
Long term debt	**47,404**	50,480	**45,729**	48,316
Deferred items	**10,546**	4,846	**10,997**	6,781
	57,950	55,326	**56,726**	55,097
Shareholders' equity	**$10,043**	16,211	**12,452**	11,765
Represented by:				
Share capital	**$10,000**	10,000	**8,000**	8,000
Retained earnings	**43**	6,211	**4,452**	3,765
	$10,043	16,211	**12,452**	11,765

During the year, dividends were declared by Prince George and Intercontinental in the amounts of $10,000,000 and $2,600,000 respectively.

FINANCIAL SECTION

SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Reed Paper Ltd. and all its subsidiary companies. Subsidiary companies are accounted for on a purchase-acquisition basis and their operating results are included in the consolidated statement of earnings from their respective dates of acquisition. All material intercompany balances, transactions and profits have been eliminated.

FOREIGN CURRENCY TRANSLATIONS:

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at the rates of exchange in effect as at the balance sheet dates, non-current assets at rates in effect at the dates of acquisition, long term liabilities at rates in effect when the debt was incurred, and income and expense transactions at average rates of exchange during the year in which the transactions arose, except for depreciation and amortization which are on the same basis as the related assets.

VALUATION OF INVENTORIES:

Finished products and work in process have been valued at the lower of cost and net realizable value and all other inventories have been valued at the lower of cost and replacement cost.

FIXED ASSETS:

Fixed assets are recorded at cost or, in the case of certain timber limits at valuation determined in 1920. Grants received under government capital assistance programs are deducted from the cost of fixed assets. For major projects, interest incurred during construction is capitalized.

The costs of major additions and replacements are capitalized as fixed assets; maintenance, repairs and minor replacements are expensed in the year in which they are incurred. On retirement or disposal of fixed assets, the costs thereof and related accumulated depreciation or depletion are eliminated from the accounts and any resultant gain or loss is reflected in earnings.

DEPRECIATION AND DEPLETION:

Depreciation on property, plant and equipment is provided at rates which are estimated to amortize the cost of such assets over their productive lives.

Depreciation on major projects is not provided until the asset is operational.

Depletion on timber limits and lands is determined on a basis related to log production on the original cost or valuation of the property.

INVESTMENTS:

Joint Venture Companies:

Investments in the Joint Venture Companies are accounted for on the equity method of accounting. The share of earnings of these companies is included in consolidated net earnings for the year. The investment accounts are carried at cost and are increased by the proportionate share of earnings net of losses and dividends received.

Other:

Short term and other investments are accounted for at cost.

INTANGIBLE ASSETS:

Goodwill is the excess of the cost of purchase over the fair value of net tangible assets of subsidiary companies acquired. Such goodwill, to the extent that it arises on business combinations subsequent to 1973 is being amortized over a period of 40 years in accordance with a recommendation of the Canadian Institute of Chartered Accountants. Goodwill arising prior to 1974 is carried at a cost of $39,401,000.

Discount and costs of issue of debentures are amortized over the term of the related debt. Other intangible assets are amortized at appropriate straight-line rates.

INCOME TAXES:

The companies follow the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable are reflected in deferred income taxes and arise from items of revenue and expense (such as depreciation) being included in reported profits in periods other than those in which they are included in the determination of taxable income.

RESEARCH AND DEVELOPMENT:

Research and development expenditures are charged to earnings in the year in which they are incurred.

EARNINGS PER COMMON SHARE:

Earnings per common share are calculated on a weighted monthly average of common shares outstanding.

FINANCIAL REPORTING PERIOD:

The financial year of the Company ends on the last Saturday in the calendar year.

CONSOLIDATED BALANCE SHEET

(in thousands of dollars)

	December 27, 1975	December 28, 1974
ASSETS		
Current Assets:		
Cash and short term investments	**$ 625**	$ 760
Accounts receivable	**80,033**	44,291
Due from affiliated companies	**3,475**	4,091
Income taxes recoverable	**3,748**	—
Inventories (Note 4)	**108,189**	81,579
Prepaid expenses	**7,292**	4,469
Total Current Assets	**203,362**	135,190
Fixed Assets (Note 3)	**122,674**	81,388
Other Assets:		
Investment in Joint Venture Companies (Note 5)	**24,096**	22,906
Other investments (Note 6)	**1,245**	1,601
Due from employees	**1,799**	1,645
Deferred charges	**1,269**	125
Discount and costs of issue of debentures	**1,741**	149
Goodwill	**57,214**	54,081
	87,364	80,507
	$413,400	$297,085

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

R. W. Billingsley

Director

	December 27, 1975	December 28, 1974
LIABILITIES		
Current Liabilities:		
Bank indebtedness	**$ 47,251**	$ 40,835
Accounts payable	**44,853**	29,533
Dividends payable	**4,206**	2,257
Income taxes	—	12,976
Due to affiliated companies	**357**	1,903
Instalments on long term debt due within one year	**3,742**	1,350
Total Current Liabilities	**100,409**	88,854
Long Term Debt:		
Notes and mortgages payable (Note 7)	**11,952**	4,946
Debentures (Note 8)	**78,779**	26,509
	90,731	31,455
Deferred Income Taxes	**10,575**	9,773
Minority Interest	—	573
Shareholders' Equity:		
Share capital (Note 9):		
Preferred shares	**34,036**	26,545
Common shares	**121,381**	80,002
	155,417	106,547
Retained earnings	**56,268**	59,883
	211,685	166,430
Contingent Liabilities and Commitments (Notes 11 and 12)		
	$413,400	$297,085

(in thousands of dollars)	Year Ended December 27, 1975	December 28, 1974
Sales	**$369,067**	$303,201
Cost of sales including administrative, selling and general expenses	**336,068**	236,334
Depreciation, depletion and amortization	**9,971**	7,786
Interest on short term debt	**6,439**	2,101
Interest on long term debt	**3,417**	2,504
	355,895	248,725
Earnings from operations	**13,172**	54,476
Other income	**1,342**	2,072
	14,514	56,548
Share of earnings net of losses of Joint Venture Companies	**13,383**	14,274
Earnings before income taxes, minority interest and extraordinary items	**27,897**	70,822
Income taxes:		
Of the Company	**9,370**	25,267
Of the Joint Venture Companies	**6,218**	6,930
	15,588	32,197
Earnings before minority interest and extraordinary items	**12,309**	38,625
Minority interest in earnings	**—**	4,368
Earnings before extraordinary items	**12,309**	34,257
Extraordinary items (Note 14)	**(1,201)**	2,402
Net earnings	**$ 11,108**	$ 36,659
Earnings per common share:		
Before extraordinary items	**$ 1.29**	$ 4.91
After extraordinary items	**$ 1.13**	$ 5.26
Fully diluted earnings per common share:		
Before extraordinary items	**$ 1.29**	$ 4.80
After extraordinary items	**$ 1.13**	$ 5.14

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

REED PAPER LTD.

(in thousands of dollars)	Year Ended December 27, 1975	December 28, 1974
Retained earnings at beginning of year:		
As previously reported	**$59,679**	$30,858
Adjustment of inventory valuation (Note 4)	**204**	(8)
As restated	**59,883**	30,850
Net earnings	**11,108**	36,659
	70,991	67,509
Less:		
Dividends declared:		
Common	**12,116**	7,096
Preferred	**2,544**	530
	14,660	7,626
Other	**63**	—
	14,723	7,626
Retained earnings at end of year	**$56,268**	$59,883

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders
Reed Paper Ltd.

We have examined the consolidated balance sheet of Reed Paper Ltd. as of December 27, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Reed Paper Ltd. and its subsidiary companies, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For the Joint Venture Companies accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of Reed Paper Ltd. as of December 27, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the basis of valuing pulpwood inventories referred to in Note 4 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Ontario
February 27, 1976

(in thousands of dollars)	Year Ended December 27, 1975	December 28, 1974
Source of funds:		
Earnings before extraordinary items	**$ 12,309**	$34,257
Items not affecting working capital:		
Depreciation, depletion and amortization including amortization of intangible assets	**10,120**	7,819
Deferred income taxes	**568**	2,020
Share of earnings of Joint Venture Companies (less dividends of $5,975 in 1975)	**(1,190)**	(7,344)
Minority interests	—	4,368
Funds provided from operations	**21,807**	41,120
Issue of long term debt	**59,247**	909
Issue of shares	**48,870**	26,545
Disposal of fixed assets	**4,818**	3,660
Reduction in other assets	**185**	3,612
Total funds provided	**134,927**	75,846
Application of funds:		
Acquisition of subsidiary companies (Note 2(c)):		
Total purchase consideration	**20,215**	10,755
Less working capital acquired	**10,861**	2,877
	9,354	7,878
Fixed assets	**44,262**	23,475
Dividends	**14,660**	8,453
Retirement of long term debt	**5,605**	6,391
Discount and costs of issue of debentures	**1,623**	—
Loss on plant closure	**1,499**	—
Shares of a subsidiary company	**784**	27,191
Redemption of preferred shares of subsidiary companies	—	1,511
Other items	**523**	304
Total funds used	**78,310**	75,203
Increase in working capital for the year	**56,617**	643
Working capital at beginning of year	**46,336**	45,693
Working capital at end of year	**$102,953**	$46,336

See accompanying notes to consolidated financial statements.

December 27, 1975

1. Summary of significant Accounting Policies:
A summary of the accounting policies is set out on Page 29.

2. Acquisitions:

(a) On March 24, 1975, the Company effectively acquired all the issued and outstanding shares of Reed Lumber Company Ltd. (formerly Alpa Industries Limited) ("Alpa"), a distributor of lumber and building products. The acquisition was effected by means of an amalgamation of Alpa with a subsidiary of the Company to create a new corporation. Under the terms of the amalgamation, the former shareholders of Alpa received redeemable preference shares in the new corporation which were subsequently redeemed for cash. The effective purchase price to the Company was as follows:

	(thousands)
The former shareholders of Alpa received 1,190,945 non-cumulative redeemable preference shares with a par value of $12 each of the new corporation in exchange for the 1,190,945 common shares without par value held by them	$ 14,291
Costs of acquisition	690
	$ 14,981
Net tangible assets of Alpa at fair value	12,061
Excess of the cost of purchase over fair value of net assets, assigned to goodwill	$ 2,920

(b) On April 3, 1975, a subsidiary company acquired certain assets and business operations of the wallcovering division of Dwoskin Inc. ("Dwoskin"), a company which operates wallcovering distribution centres in the United States. The total purchase price of $8,693,000 was subject to the assumption of related liabilities of $3,459,000 and the balance was satisfied by cash payments of $3,000,000 and the issue of notes payable in the amount of $2,234,500 maturing in 1976 to 1978 and bearing interest at the prime rate as set by a financial institution in Atlanta, Georgia, U.S.A.

(c) As a result of the purchase of Alpa and Dwoskin, the assets acquired and liabilities assumed were as follows:

	(thousands)
Working capital	$10,861
Fixed assets	11,087
Other assets	877
Long term debt	(5,634)
Deferred income taxes	(161)
	$17,030
Goodwill arising on acquisitions	3,185
Total purchase consideration	$20,215

3. Fixed Assets:

	December 27, **1975**	December 28, 1974
	(thousands)	(thousands)
Lands, buildings, machinery and equipment	**$249,450**	$200,499
Less accumulated depreciation	**129,988**	122,404
	119,462	78,095
Timber limits and lands:		
At cost and valuation determined in 1920	**7,392**	7,392
Less accumulated depletion	**4,180**	4,099
	3,212	3,293
	$122,674	$ 81,388

4. Inventories

	December 27, 1975	December 28, 1974
	(thousands)	(thousands)
Pulpwood and logging supplies—including expenditures on logging operations in progress	**$ 42,771**	$24,914
Raw materials and supplies	**19,136**	27,176
Finished products and work in process	**46,282**	29,489
	$108,189	$81,579

During the year, in order to be consistent in all divisions of the Company, a subsidiary company changed its basis of valuing pulpwood inventory to include depreciation on fixed assets utilized in the logging operations. Such depreciation had previously been recorded as a period cost. Retroactive effect has been given to this change in the consolidated financial statements.

5. Investment in Joint Venture Companies:

	December 27, 1975	December 28, 1974
	(thousands)	(thousands)
Prince George Pulp and Paper Limited ("Prince George") (50% owned):		
Shares, at cost	**$ 5,025**	$ 5,000
6% subordinated debentures, due October 15, 1986	**7,500**	7,500
	12,525	12,500
Company's share of retained earnings	**21**	3,106
Net book value of investment	**12,546**	15,606
Intercontinental Pulp Company Ltd. ("Intercontinental") (37.5% owned):		
Shares, at cost	**3,019**	3,000
6.55% subordinated debentures, Series "A", due January 15, 1988	**4,500**	4,500
	7,519	7,500
Company's share of retained earnings	**1,669**	1,413
Net book value of investment	**9,188**	8,913
Takla Forest Products Limited ("Takla") (43.75% owned directly or indirectly):		
Shares, at cost	—	44
7% debentures, due November 1, 1982	**1,269**	1,269
9% demand loan	**1,093**	1,093
	2,362	2,406
Company's share of deficit	—	(4,019)
Net book value of investment	**2,362**	(1,613)
Total net book value of investments	**$24,096**	$22,906

On June 27, 1975, the financial affairs of the Joint Venture Companies were reorganized whereby the shares of Takla, formerly held directly by the Company and the other two sponsors, were sold to a company owned 50% by Prince George and 50% by Intercontinental. The Company's beneficial interest in the Joint Venture Companies remained unchanged and the cost of the shares of Takla in the amount of $43,750 was allocated proportionately to the cost of the shares in Prince George and Intercontinental. During 1975 and prior years, interest was waived on certain debts owing by Takla to the Company, the other two sponsors, and to Prince George and Intercontinental. As part of the reorganization, Prince George and Intercontinental subscribed for additional capital of Takla, the proceeds of which were used by Takla to extinguish debts owing to Prince George and Intercontinental and to retire bank indebtedness.

Summarized financial information of the Joint Venture Companies which has been extracted from audited financial statements is set out on Page 27.

6. Other Investments:

	December 27, 1975 (thousands)	December 28, 1974 (thousands)
Shares in associated and other companies	**$ 309**	$ 309
Debentures, advances and notes receivable	**936**	1,292
	$1,245	$1,601

7. Notes and Mortgages Payable:

	December 27, 1975 (thousands)	December 28, 1974 (thousands)
Notes:		
Interest bearing, at prime rates, payable from 1976 to 1979, $5,534,000 (U.S.)	**$ 5,251**	$ —
11.5% secured, payable in monthly instalments to 1980	**2,933**	—
8½% secured, due 1984, $1,900,000 (U.S.)	**2,033**	2,236
Other	**2,363**	1,847
Mortgages:		
6% to 9½% maturing 1976 to 1978	**2,275**	1,960
	14,855	6,043
Less payable within one year	**2,903**	1,097
	$11,952	$4,946

Instalments of notes and mortgages payable maturing in each of the years 1976, 1977, 1978, 1979 and 1980 amount to $2,903,000, $2,652,000, $4,245,000, $1,850,000 and $1,417,000 respectively. Notes and mortgages repayable in United States dollars are carried at December 27, 1975 at the Canadian equivalent of $8,076,000. If translated at the rate of exchange at December 27, 1975 the amount would be $8,040,000.

8. Debentures:

	Maturity	December 27, 1975 (thousands)	December 28, 1974 (thousands)
Reed Paper Ltd.:			
6½% sinking fund, redeemable Series "A"	1985	**$10,378**	$10,949
Reed Ltd.:			
11⅞% sinking fund, Series "A"	1995	**50,000**	—
Papeterie Reed Ltée:			
6¼% sinking fund, Series "A"	1978	**1,202**	1,536
5% sinking fund, Series "B", $3,500,000 (U.S.)	1984	**3,760**	3,975
6½% sinking fund, Series "C"	1986	**4,987**	5,302
Reed Decorative Products Ltd.:			
8¾% sinking fund, Series "A"	1992	**4,900**	5,000
Reed Lumber Company Ltd.:			
8¾% sinking fund, Series "A"	1993	**4,391**	—
		79,618	26,762
Less payable within one year		**839**	253
		$78,779	$26,509

Instalments of debentures maturing in each of the years 1976, 1977, 1978, 1979 and 1980 amount to $839,000, $2,413,000, $2,422,000, $2,172,000 and $2,172,000 respectively. The 5% sinking fund, Series "B" debentures are carried at the Canadian equivalent of $3,760,000. If translated at the rate of exchange at December 27, 1975 the amount would be $3,547,000.

9. Share Capital:

	Authorized		Issued and Outstanding	
	Shares	Amount (thousands)	Shares	Amount (thousands)
(a) $2 Cumulative Redeemable Convertible Voting Preferred Shares, par value $25.00 each:				
Balance December 28, 1974	2,000,000	$ 50,000	1,061,819	$ 26,545
Increase in authorized shares	3,000,000	75,000		
Issued as consideration for common shares of a subsidiary company			31,367	784
Issued for cash			357,662	8,942
			1,450,848	36,271
Less commission on issue of shares				2,235
Balance December 27, 1975	5,000,000	$ 125,000	1,450,848	$ 34,036

	Shares Authorized	Issued and Outstanding	
		Shares	Amount (thousands)
(b) Common shares without nominal or par value:			
Balance December 28, 1974	25,000,000	6,874,193	$ 80,002
Issued for cash		2,406,031	41,379
Balance December 27, 1975	25,000,000	9,280,224	$ 121,381

Of the 15,719,776 unissued common shares at December 27, 1975, 1,450,848 are reserved to satisfy the conversion right attached to the preferred shares.

10. Statutory Information:

	Received as Directors		Received as Officers	
	1975	1974	**1975**	1974
The aggregate remuneration of directors and senior officers of the Company was as follows:				
Paid by:				
Reed Paper Ltd.	**$ 42,400**	$ 7,750	**$ —**	$ 594,865
Reed Ltd.	**—**	—	**1,047,975**	—
Anglo-Canadian Pulp and Paper Mills, Limited	**—**	14,250	**—**	48,430
	$ 42,400	$ 22,000	**$1,047,975**	$ 643,295

The 1975 totals include remuneration of 10 directors including 2 past directors (1974—10) of whom 4 (1974—3) are or were officers and 14 officers (1974—12), including a past officer, who are not directors.

11. Contingent Liabilities:

(a) The actions instituted in prior years against two subsidiary companies for alleged pollution of certain lakes and rivers in Northwestern Ontario and Manitoba in the aggregate amount of $5,725,000 are being contested in the courts. It is not possible to estimate the ultimate liability, if any, arising out of these proceedings.

(b) A subsidiary company has been advised by the National Harbours Board that it would be responsible for dredging costs of the St. Charles River estuary because of past discharge of refuse and waste. The subsidiary company does not agree that it is responsible for any part of these costs.

(c) The Company, Reed International Limited (an affiliated company) and a joint venture partner are parties to a deficiency agreement by the terms of which they have undertaken a joint and several obligation to pay interest, premium (if any), sinking fund and principal payments on first mortgage bonds of two Joint Venture Companies amounting in the aggregate to $73,100,000 at December 27, 1975 (December 28, 1974—$78,600,000) should these Joint Venture Companies be unable to do so.

12. Commitments:

(a) Commitments for capital expenditures at December 27, 1975 were approximately $11,600,000 (December 28, 1974—$15,740,000).

A subsidiary company has agreed to post a performance bond with the Ontario Government in the amount of $500,000 to guarantee that construction of certain new facilities will commence by December 1977.

(b) Amounts paid in 1975 in respect of long term leases were approximately $4,900,000. Future annual rentals under such lease obligations outstanding on December 27, 1975 will be due in each of the years 1976, 1977, 1978, 1979 and 1980 in the amounts of $6,000,000, $5,300,000, $4,600,000, $4,000,000 and $3,700,000 respectively and $22,600,000 will be due thereafter.

(c) Supplementary pension costs arising from increases in past service benefits and other revisions to employees' pension plans are being amortized over periods extending up to 1990, except for a United States subsidiary company for which the period extends to 2002. At December 27, 1975, the total unfunded liability was estimated at $5,800,000.

13. Government Legislation:

The Company is subject to the Anti-Inflation Act and Regulations which became effective October 14, 1975. As a result, the Company's ability to increase prices, profit margins, compensation and dividends subsequent to that date is restricted.

14. Extraordinary Items:

	Year Ended December 27, **1975**	December 28, 1974
	(thousands)	(thousands)
Estimated loss due to closure of a plant	**$ (1,499)**	$ —
Capital gain on expropriation of land, net of applicable taxes	**298**	—
Income tax reduction due to losses carried forward principally in the Joint Venture Companies	**—**	2,622
Other items	**—**	(220)
	$ (1,201)	$ 2,402

15. Sales by Class of Business:

	Year Ended December 27, **1975**	December 28, 1974
	(thousands)	(thousands)
Pulp, paper and related products	**$268,925**	$224,431
Decorative products (including pigments)	**100,142**	78,770
	$369,067	$303,201

A Seven Year Comparison

Sales and Earnings (thousands)	**1975**	1974	1973	1972	1971	1970	1969
Sales	**$369,067**	$303,201	$217,568	$176,025	$154,666	$151,949	$144,148
Depreciation and depletion	**9,971**	7,786	6,173	6,315	6,241	6,101	5,670
Interest on long term debt	**3,417**	2,504	2,650	2,831	2,882	3,023	2,793
Income taxes	**15,588**	32,197	15,044	5,237	3,451	4,010	4,572
Earnings (loss) before extraordinary items	**12,309**	34,257	16,588	4,133	2,362	(199)	1,383
Net earnings	**11,108**	36,659	19,532	5,127	3,478	735	2,603

Financial Position (thousands)							
Working capital	**102,953**	46,336	45,693	41,126	35,640	32,064	33,960
Fixed assets	**256,842**	207,891	186,722	177,727	174,705	170,861	164,500
Accumulated depreciation and depletion	**134,168**	126,503	121,917	117,296	111,224	103,900	98,492
Capital expenditures	**44,262**	23,475	11,507	3,169	4,895	6,979	9,861
Long term debt	**90,731**	31,455	34,678	40,030	40,188	42,184	46,780
Shareholders' equity	**211,685**	166,430	110,852	98,212	93,593	90,442	90,165

Per Common Share							
Earnings before extraordinary items	**1.29**	4.91	2.41	.60	.34	(.03)	.20
Net earnings	**1.13**	5.26	2.84	.76	.51	.11	.38
Dividends	**1.50**	1.03	—	—	—	—	—
Equity	**19.14**	20.35	16.13	14.29	13.62	13.17	13.12

Stock Trading Range

	Toronto Stock Exchange			**Montreal Stock Exchange**		
1975	High	Low	Volume	High	Low	Volume
1st Quarter	$23	$18¾	96,700	$23	$19	5597
2nd Quarter	22	20½	72,400	22	20⅞	8799
3rd Quarter	23⅛	20¼	166,100	23	20¼	9192
4th Quarter	22	20¾	59,900	21¾	20¾	5025
1976						
January	23¾	20¾	39,000	21¼	21	550
February	24½	23⅝	78,672	23¾	23⅝	317

COMPANY LOCATIONS

PULP AND PAPER GROUP

Pulp and paper mill, Dryden.

Quebec City Area, Quebec.
Newsprint, market sulphite pulp and paperboard mill.
Lignosulphonate plant.
Lignosulphonate sales office.
Limestone quarry and processing equipment.

Montreal, Quebec.
Pulp and paper sales office.

Dryden, Ontario.
Market kraft pulp, kraft converting, and fine paper mill.
Chlorine, caustic soda, sodium chlorate, and hydrochloric acid plants.
Manufacturing facilities for tall oil and solvent grade turpentine.

Toronto, Ontario.
Pulp and paper sales office.

Winnipeg, Manitoba.
Pulp and paper sales office.

Chicago, Ill. (Park Ridge)
Pulp and paper sales office.

FORESTRY AND WOOD PRODUCTS GROUP

Forestville, Quebec.
Woodlands operations.

Red Lake Road, Ontario.
Sawmill operations.

Dryden, Ontario.
Woodlands operations.

REED LUMBER

Lumber yard, Maple, Ontario.

Burlington, Ontario.
Building products manufacturing facility.
Lumber and building products distribution centre.

Barrie, Ontario.
Lumber and building products distribution facility.

Cambridge, Ontario.
Lumber and building products distribution centre.

Kitchener, Ontario.
Contractors for farm and industrial buildings and silos.

Maple, Ontario.
Building products manufacturing facility.
Lumber and building products distribution centre.

Newmarket, Ontario.
Building products manufacturing facility.

Ottawa, Ontario.
Lumber and building products distribution centre.

Mississauga, Ontario.
Building products manufacturing facility.

Woodbridge, Ontario.
Lumber and building products distribution centre.

Concord, Ontario.
Lumber and building products office.

Oakville, Ontario.
Lumber and building products distribution centre.

Scarborough, Ontario.
Lumber and building products distribution centre.

Edmonton, Alberta.
Building products manufacturing facility.
Lumber and building products distribution centre.

Vancouver Area, B.C.
Two lumber and building products distribution centres.
Three building products manufacturing facilities.

PACKAGING GROUP

Corrugated plant, Carlaw Avenue, Toronto.

Montreal, Quebec.
Bag and folding box plant.
Corrugated container plant.
Warehouse and distribution centre.

Hull, Quebec.
Warehouse and distribution centre.

Quebec City Area, Quebec.
Warehouse and distribution centre.

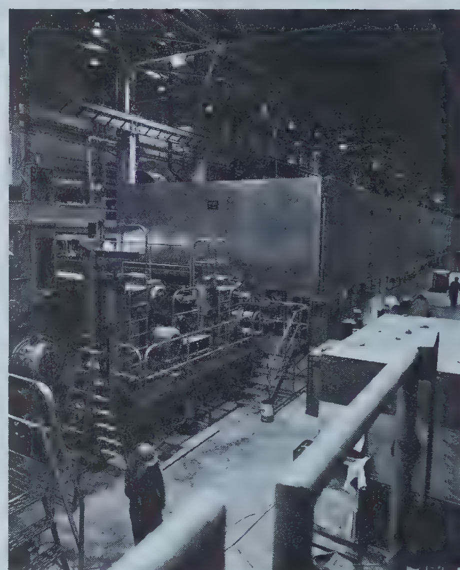
London, Ontario.
Warehouse and distribution centre.

Toronto Area, Ontario.
Warehouse and distribution centre for packaging and Spicers products.
Bag plant.
Two corrugated container plants.

Winnipeg, Manitoba.
Bag manufacturing plant, Sales and distribution centre.

Minneapolis/St. Paul area, Minnesota.
Bag manufacturing plant (April 1976).

LINERBOARD AND PIGMENTS GROUP



Linerboard mill, Mississauga, Ontario.

Toronto Area, Ontario.
Linerboard and medium mill.
Two pigment manufacturing plants.
Recycling secondary fibre plant, warehouse and sales office.
Linerboard mill (May 1976).

Montreal, Quebec.
Pigments warehouse and sales office.
Recycling secondary fibre plant and sales office.

Quebec City, Quebec.
Recycling secondary fibre plant and sales office.

New York City, New York.
Sales office, recycled fibre.

Buffalo, New York.
Paper stock plant.
Trading office.

DECORATIVE PRODUCTS GROUP

Reed National Drapery, Toronto.

Toronto Area, Ontario.
Wallcovering and fabric showroom and warehouse.
Two wallcovering and paint retail outlets.
Wallcovering plant and warehouse.
Furniture manufacturing plant.
Custom drapery manufacturing plant.
Three custom drapery retail outlets.
Wallcovering distribution centre.

Kitchener, Ontario.
Wallcovering and paint retail outlet.

London, Ontario.
Wallcovering and paint retail outlet.
Custom drapery retail outlet.

Ottawa, Ontario.
Wallcovering distribution centre.
Customer drapery retail outlet.

Montreal Area, Quebec.
Wallcovering distribution centre.
Wallcovering and fabric sales office and showroom.
Four wallcovering and paint retail outlets.
Custom drapery retail outlet.

Stoney Creek, Ontario.
Wallcovering distribution centre.

Quebec City, Quebec.
Wallcovering distribution centre.

Winnipeg, Manitoba.
Wallcovering and paint retail outlet and distribution centre.

Regina, Saskatchewan.
Wallcovering and paint retail outlet.

Saskatoon, Saskatchewan.
Wallcovering and paint retail outlet.

Calgary, Alberta.
Two wallcovering and paint retail outlets.
Wallcovering and paint distribution centre.

Lethbridge, Alberta.
Wallcovering and paint retail outlet.

Edmonton, Alberta.
Two wallcovering and paint retail outlets.
Wallcovering and paint distribution centre.
Custom drapery retail outlet.

Medicine Hat, Alberta.
Wallcovering and paint retail outlet.

Kamloops, British Columbia.
Wallcovering and paint retail outlet.

Kelowna, British Columbia.
Wallcovering and paint retail outlet.

Prince George, British Columbia.
Wallcovering and paint distribution centre and retail outlet.

Vancouver Area, British Columbia.
Paint manufacturing facility, retail outlet and showroom.
Eight wallcovering and paint retail outlets.
Wallcovering and fabric showroom and sales office.
Custom drapery retail outlet.

Vernon, British Columbia.
Wallcovering and paint retail outlet.

Victoria, British Columbia.
Wallcovering and paint retail outlet and distribution centre.

Los Angeles, California.
Wallcovering distribution centre.

Oakland, California.
Two wallcovering distribution centres and sales offices.

Denver, Colorado.
Wallcovering showroom and distribution centre.

Miami, Florida.
Wallcovering showroom.
Wallcovering distribution centre.

Atlanta, Georgia.
Wallcovering showroom.
Wallcovering distribution centre.

Chicago, Illinois.
Wallcovering distribution centre.

Kansas City, Kansas.
Wallcovering showroom and distribution centre.

Detroit, Michigan.
Wallcovering showroom and distribution centre.

St. Louis, Missouri.
Wallcovering showroom.
Wallcovering distribution centre.

East Brunswick, New Jersey.
Wallcovering distribution centre.

Buffalo, New York.
Wallcovering plant and offices.
Wallcovering plant and warehouse.
Wallcovering distribution centre.

New York City, New York.
Wallcovering showroom.

Charlotte, North Carolina.
Wallcovering showroom and distribution centre.

Cleveland, Ohio.
Wallcovering distribution centre.

Oklahoma City, Oklahoma.
Wallcovering showroom.

Portland, Oregon.
Wallcovering distribution centre.

Memphis, Tennessee.
Wallcovering showroom.

Philadelphia, Pennsylvania.
Wallcovering distribution centre.

Dallas, Texas.
Wallcovering showroom and distribution centre.

Houston, Texas.
Wallcovering showroom and distribution centre.

Washington, D.C.
Wallcovering showroom.
Wallcovering distribution centre.

Boston, Massachusetts.
Wallcovering distribution centre.

TECHNICAL GROUP

Quebec City, Quebec.
Research labs and offices.

Toronto, Ontario.
Engineering offices.

Dryden, Ontario.
Engineering offices.

JOINT VENTURE COMPANIES

Production control room at Prince George.

Fort St. James, British Columbia.
Dimension lumber, studs, veneer production.
Logging.

Isle Pierre, British Columbia.
Dimension lumber, studs production.
Logging.

Prince George, British Columbia.
Bleached and unbleached kraft pulp and sack kraft paper mill.
Bleached and unbleached kraft pulp mill.
Sodium chlorate and crude tall oil plant.
Logging.
Joint Venture Companies' head office.

REED

PRINTED IN CANADA

Reed Paper Ltd.
Consolidated Statement of Earnings

(unaudited)
(in thousands of dollars)

	Six Months Ended June 26, 1976	Six Months Ended June 28, 1975
Sales	$210,623	$164,403
Cost of sales including administrative, selling and general expenses	195,201	141,880
Depreciation, depletion and amortization	5,933	5,140
Interest on short term debt	2,471	3,034
Interest on long term debt	3,644	1,266
	207,249	151,320
Earnings from operations	3,374	13,083
Other income	581	465
	3,955	13,548
Share of earnings net of losses of Joint Venture Companies	7,231	10,488
Earnings before income taxes and extraordinary item	11,186	24,036
Income taxes:		
Of the Company	2,532	6,358
Of the Joint Venture Companies	3,374	4,829
	5,906	11,187
Earnings before extraordinary item	5,280	12,849
Extraordinary item:		
Income tax reduction due to losses carried forward in the Joint Venture Companies	142	—
NET EARNINGS	$ 5,422	$ 12,849
Earnings per common share:		
Before extraordinary item	$ .21	$ .86
After extraordinary item	$ .21	$ .86
Fully diluted earnings per common share:		
Before extraordinary item	$ .21	$ .81
After extraordinary item	$ .21	$ .81

NOTE: June, 1975 earnings per common share have been restated to reflect a two-for-one share split in May, 1976.

Consolidated Statement of Changes in Financial Position

(unaudited)
(in thousands of dollars)

	Six Months Ended June 26, 1976	Six Months Ended June 28, 1975
Source of funds:		
Earnings before extraordinary item	$ 5,280	$ 12,849
Items not affecting working capital:		
Depreciation, depletion and amortization including amortization of intangible assets	6,064	5,140
Deferred income taxes	1,616	1,566
Share of earnings of Joint Venture Companies (less dividends of $4,100 in 1976)	243	(5,659)
Funds provided from operations	13,203	13,896
Issue of long term debt	2,352	3,741
Disposal of fixed assets	660	288
Other items	124	911
Total funds provided	16,339	18,836
Application of funds:		
Acquisition of subsidiary companies:		
Total purchase consideration	—	20,422
Less working capital acquired	—	11,087
	—	9,335
Fixed assets	21,692	13,182
Dividends	8,387	6,248
Retirement of long term debt	6,067	3,149
Other items	855	836
Total funds used	37,001	32,750
Decrease in working capital	$ 20,662	$ 13,914

Reed Paper Ltd.
Interim Financial Report

for the six months ended June 26, 1976

Reed Paper Ltd.

To the Shareholders:

Net earnings for the six months ended June 26, 1976, were $5,422,000 or 21¢ a share, fully diluted. Net earnings for the company for the first six months of last year were $12,849,000 or 81¢ per share, fully diluted, after taking into account the two-for-one share split in May 1976. Sales for the six months totalled $210,623,000, compared with $164,403,000 during the comparable period of 1975.

The results for the second quarter were adversely affected by weak market conditions in decorative products and packaging; continued strength of the Canadian dollar against the U.S. dollar; the operating losses on the start up of the new linerboard mill at Mississauga; and labor disputes at the pulp and paper mill in Dryden and the Ajax and New Toronto pigments plants.

On June 14, 1976, the Dryden mill was struck and it remains struck. The union bargaining committees representing 1,100 employees of Locals 105 and 1323 of the Canadian Paperworkers' Union and Local 865 of the International Union of Operating Engineers rejected a final offer made by the Company on Saturday, June 12.

The Ajax and New Toronto, Ontario plants of the Pigments Division suffered a one-week wildcat strike in June but subsequently signed a two-year collective agreement with Local 880 of the International Chemical Workers Union. The previous contract expired February 18, 1976.

The joint venture operations were also adversely affected during the second quarter by labor disruptions on the British Columbia Railway which have now been settled.

The Federal Government budget, presented on May 25, proposed changes to the anti-inflation program. As final details have not yet been published no precise prediction can be made of the impact on Reed's operations. It seems likely, however, that the new regulations may restrict the company's ability to operate at normal profit levels in some product lines.

With the Dryden strike unresolved, and the unsettled business environment, the outlook for profits continues uncertain.

On August 12, the Board of Directors declared quarterly dividends on the capital stock of the company of 25¢ per share (taxable dividend) on the Class A preferred shares, 21.25¢ per share (tax deferred dividend) on the Class B preferred shares, 18.75¢ per share (taxable dividend) on the Class A common shares and 15.9375¢ per share (tax deferred dividend) on the Class B common shares. The dividends are payable on the basis of the reconstructed capital of the company on October 1, 1976, to shareholders of record at the close of business on September 15, 1976.

R. W. Billingsley

R. W. Billingsley,
President and Chief Executive Officer,
Toronto, Ontario, August 12, 1976.

Reed Paper Ltd.
Consolidated Statement of Earnings

(unaudited)
(in thousands of dollars)

	Six Months Ended June 28, 1975	Six Months Ended June 30, 1974
Sales	$164,403	$143,693
Cost of sales including administrative, selling and general expenses	144,914	110,838
Depreciation, depletion and amortization	5,140	3,606
Interest on long term debt	1,266	1,325
	151,320	115,769
Earnings from operations	13,083	27,924
Other income	465	991
	13,548	28,915
Share of earnings net of losses of joint venture companies	10,488	5,044
Earnings before income taxes, minority interest and extraordinary items	24,036	33,959
Income taxes:		
Of the Company	6,358	12,811
Of the joint venture companies	4,829	2,215
	11,187	15,026
Earnings before minority interest and extraordinary items	12,849	18,933
Minority interest in earnings	—	2,567
Earnings before extraordinary items	12,849	16,366
Extraordinary items	—	1,862
NET EARNINGS	$ 12,849	$ 18,228
Earnings per common share:		
Before extraordinary items	$ 1.71	$ 2.38
After extraordinary items	$ 1.71	$ 2.65
Fully diluted earnings per common share:		
Before extraordinary items	$ 1.61	$ 2.38
After extraordinary items	$ 1.61	$ 2.65

Consolidated Statement of Changes in Financial Position

(unaudited)
(in thousands of dollars)

	Six Months Ended June 28, 1975	Six Months Ended June 30, 1974
Source of funds:		
Net earnings before extraordinary items	$ 12,849	$ 16,366
Charges (credits) to earnings not affecting working capital:		
Depreciation, depletion and amortization	4,943	3,606
Amortization of goodwill	197	—
Deferred income taxes	1,566	1,764
Share of earnings of joint venture companies	(5,659)	(2,829)
Minority interests	—	2,567
Funds provided from operations	13,896	21,474
Extraordinary items	—	106
Issue of preferred shares	784	—
Disposal of fixed assets	288	3,156
Reduction in investments	127	337
Notes and mortgages	3,741	625
Total funds provided	18,836	25,698
Application of funds:		
Acquisition of subsidiary companies:		
Total purchase consideration	20,422	10,755
Less working capital acquired	11,087	2,877
	9,335	7,878
Fixed assets	13,182	9,558
Shares of subsidiary companies	784	—
Redemption of preferred shares of subsidiary companies	—	1,512
Long term debt	3,149	4,690
Dividends including amounts paid to minority interests in 1974 of $545	6,248	2,984
Other items	52	(28)
Total funds used	32,750	26,594
Decrease in working capital	$ 13,914	$ 896

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Reed Paper Ltd.
Interim Financial Report

for the six months ended June 28, 1975

Reed Paper Ltd.

To the Shareholders:

Net earnings for the six months ended June 28, 1975 were $12,849,000 or $1.71 a share. Net earnings for the Company for the same period last year were $18,228,000 or $2.65 a share. Sales for the six months totalled $164,403,000 compared with $143,693,000 during the same period in 1974. Sales and earnings of our two recent acquisitions, Alpa and Dwoskin, are included for the period April through June and aggregated $23,946,000 and $547,000 respectively.

Profits for the second quarter were slightly above the first quarter as market conditions for all products except lumber remained stagnant. The recovery in lumber markets which began in the first quarter continued during the period.

We have taken down-time in a number of our operations to keep inventories in line. Two of the kraft specialty paper machines at Dryden were down for approximately three weeks during the quarter and on June 1 we shut down one of the four newsprint machines at our Quebec City mill. This shut-down is expected to continue through to the end of August. In May we shut down the table manufacturing operation of the Furniture Division for a period of three weeks and our pigment manufacturing operations were down for a total of six weeks during the quarter.

Our joint venture investments also felt the effects of poor markets during the quarter. In June, Prince George Pulp and Paper Limited took down-time, lasting one week, at its pulp and paper mill located at Prince George, British Columbia, and in the same month plans were announced to shut down both the Intercontinental Pulp Company mill (also at Prince George) and the Prince George Pulp and Paper mill, for three weeks in August.

The labour relations climate in the Canadian pulp and paper industry deteriorated still further during the quarter as contracts expired and negotiations broke down. A number of mills were struck during the month of July. Among these were our joint venture operations at Prince George, which were shut down July 15th. Workers at our Quebec mill will be legally able to strike on August 22nd. As a result of inflation, wage expectations are unrealistically high despite the fact that Canadian pulp and paper workers earn significantly more than their U.S. counterparts. In view of this it is probable that strikes will be prolonged.

In April, we organized our Packaging Group into three geographic profit centres. This new organization replaced the former Flexible Packaging and Corrugated divisional structure.

In June, National Drapery, Sanderson, Clemac and W.H.S. Lloyd were combined to form the Fabric Division of the Decorative Products Group. And in July the Recycling Division became part of the Linerboard and Pigments Group, completing the integration of all our operating units into the Group structure.

In May, Reed published its first public Annual Report and on Tuesday, May 27th, the Company held its first public Annual General Meeting at the Royal York Hotel, in Toronto. Shareholders voted to increase by one the size of the Board and M. LaCroix, Chairman of the Board of LaCroix, Inc., was elected to the Board. Following the Annual Meeting, D. O. Gray was elected Vice-President, Industrial Relations. He was formerly General Manager, Industrial Relations.

The Board of Directors voted to pay a quarterly dividend of $37\frac{1}{2}$¢ per share on the outstanding common shares and 50¢ per share on the outstanding preferred shares, payable on July 1, to shareholders of record on June 20.

In June we completed a new 160,000 sq. ft. facility in Montreal which houses the paper bag and folding box manufacturing operations of the Packaging Group's Eastern Division.

During June and July the company suffered estimated losses of approximately $3 million, due to fires at four of our locations. 200,000 cords of pulpwood and a camp were destroyed at our Forestville operations. In Quebec City, a storage building for secondary fibre was burned to the ground and in Toronto a fire at our Carlaw Corrugating plant caused considerable damage to our roll stock, while fire at a storage yard on Commissioner's Street destroyed approximately 10,000 tons of used corrugated slated to be recycled. All the losses were covered by insurance.

In July we announced our intention to issue subscription Warrants or "Rights" to all Reed shareholders of record August 11. It is anticipated that the issue will raise approximately $46 million in additional equity. This capital will be applied to reduce bank loans incurred in acquiring Alpa Industries Limited, The Gold Crest Products Limited and the wallcovering business of Dwoskin Inc., and to finance previously announced modernization and expansion of the Company's pulp and paper facilities.

On August 11, Mr. E. F. Beyers resigned as Controller of the Company.

Although we have taken considerable down-time at a number of our operations, and will probably continue to do so into the third quarter, we believe that the North American economy has bottomed out and that the third quarter will see a gradual but steady improvement in all sectors of our business.

R. W. Billingsley

R. W. Billingsley,
President and Chief Executive Officer,
Toronto, Ontario. August 15, 1975.